

State of Maryland

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDED JUNE 30, 2007

State of Maryland

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2007

Maryland Selected State Officials

EXECUTIVE

Martin O'Malley
Governor

Anthony G. Brown
Lieutenant Governor

Peter Franchot
Comptroller

Douglas F. Gansler
Attorney General

Nancy K. Kopp
Treasurer

JUDICIAL

Robert M. Bell
Chief Judge
Court of Appeals of Maryland

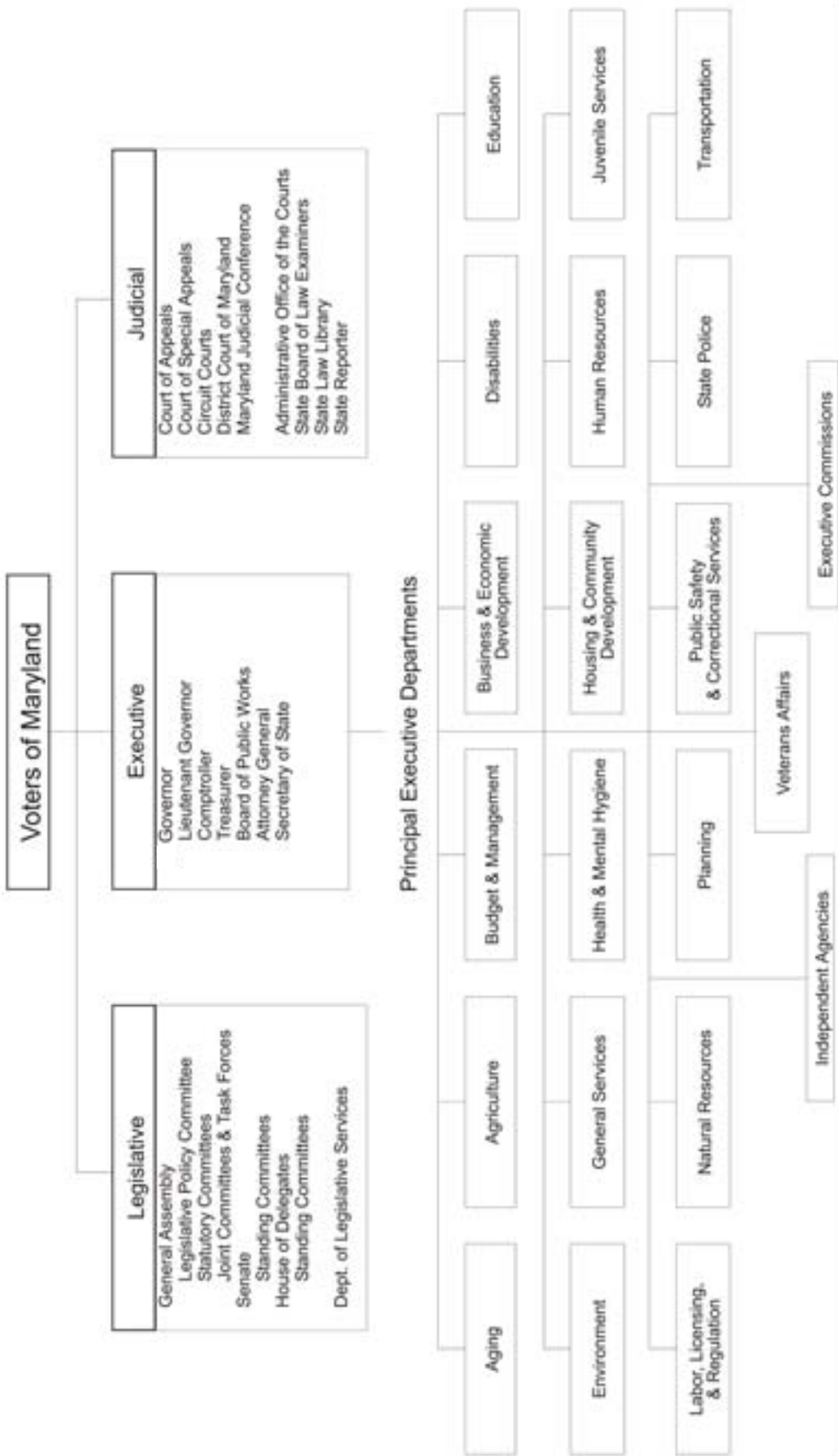
LEGISLATIVE

Thomas V. Miller, Jr.
President of the Senate

Michael E. Busch
Speaker of the House of Delegates



OVERVIEW OF MARYLAND STATE GOVERNMENT



A Message from Comptroller Peter Franchot

Comptroller of Maryland

Peter Franchot

Comptroller

Linda L. Tanton

Deputy Comptroller

Len Foxwell

Deputy Comptroller

David Weaver

Chief of Staff

Jerome Klasmeier

Assistant Comptroller

Gerald Langbaum, Esquire

Assistant Attorney General

Kenneth H. Smith, Director

Administration and Finance Office

Joseph Shapiro, Director

Communications Office

Jeanne Zarnoch, Director

Office of Personnel Services

Robert J. Murphy, Director

Central Payroll Bureau

James T. Loftus, Director

Compliance Division

John T. Salmon, Director

Information Technology Division

John Horney, Director

Field Enforcement Division

James M. Arnie, Director

Revenue Administration Division

David F. Roose, Director

Bureau of Revenue Estimates

Thad Russell, Director

Motor Fuel, Alcohol & Tobacco

Tax Regulatory Division

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It has truly been an honor to serve as the state's 33rd Comptroller, following in the footsteps of two legendary Marylanders, Louis L. Goldstein and William Donald Schaefer. Our office has a long tradition of providing quality service to taxpayers. In doing this job, I bring my own set of progressive values which have guided me during my time in public service - values which I hope will help bring an even higher level of performance to this great agency.



After all, the Comptroller's Office does more than just collect taxes - we attend to issues that affect the long-term fiscal health of our state.

As the chief fiscal superintendent of Maryland, I believe it is important to ...

- Ensure that consumers get a fair shake when they fill up at the pump and keep untaxed contraband cigarettes and alcohol off our streets and out of our communities
- Vigorously enforce tax laws to create a level playing field for individuals and businesses
- Expand opportunities for working families through tools such as the Earned Income Tax Credit
- Strengthen our quality of life by promoting tax-saving and environmental-friendly "green" technologies as well as developing sustainable economic growth through the life sciences and bio-technology industries

While some may criticize me for taking a more activist approach than my predecessors, I make no apologies for the success of this agency in all of these areas, which are described in more detail in the following pages.

Though our state and national economies face many uncertainties in the near future, our office is committed to providing the necessary data and thoughtful analysis needed as we work together in Annapolis to get our fiscal house back in order and preserve the quality of life that we as Marylanders have come to enjoy.



COMPTROLLER
of MARYLAND
Serving the People

Ensuring a Fair Shake for Maryland Consumers & Businesses

*W*ith the cost of living continually on the rise, Maryland families are feeling the pinch when it comes to paying for every day items. As the chief regulator of all motor fuel, alcohol and tobacco products, I am committed to ensuring that consumers are given a fair shake and that law-abiding businesses are protected from tax scofflaws seeking to cheat Maryland out of the revenue it is lawfully owed.

One such way we are pursuing this goal is by working to determine whether motorists are getting the expected energy value for their dollar when they fill up at the gas station. This past summer, our enforcement agents began a year-long study with the Department of Agriculture to verify that gas is being properly stored at the reference temperature of 60 degrees or



cooler. When the average temperature of fuel in storage tanks at the retail outlets exceeds 60 degrees, it is commonly referred to as “hot fuel.”

When fuel is hotter, it expands and consumers may not be getting what they pay for at the pump.

The data we have been collecting will be useful in any call for legislation to address the issue in the future.



Our agents have also been working closely with local law enforcement officials to keep contraband alcohol and cigarettes off our streets and create a level playing field for law-abiding Maryland businesses. During the 2007 fiscal year, agents confiscated more than 50,000 packs of cigarettes valued at more than \$207,000 as well as almost \$175,000 worth of wine, distilled liquor and beer. In addition, over \$1.4 million of delinquent sales and use tax was collected by our agency, all of which goes into the state's general fund.

Enforcement efforts such as these are an important part of ensuring that hard-working individuals and businesses are getting a fair shake as they help to strengthen and grow our economy. In working together with our partners at the county and local level, we have and continue to make significant strides in helping to keep consumers up to date with important information and to protect our communities from illegal contraband.

VIGOROUSLY ENFORCING MARYLAND'S TAX LAWS

*W*ith billions of dollars from tax returns processed each year, the Comptroller's Office prides itself on providing timely and knowledgeable service to all state taxpayers. While most Marylanders are honest, hard working-citizens who pay their fair share of taxes, there are individuals and businesses that attempt to cheat the state out of millions of dollars in revenue it is lawfully due.

To crack down on tax scofflaws, our Compliance Division has vigorously pursued the state's worst offenders, making an example of those who willingly flout the law. Since its inception in 2000, our agency's online “Caught in the Web” program, which lists the 25 worst businesses and individuals, has netted over \$20.3 million from nearly 500 tax delinquents.

Continued on next page ...

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Our office has also entered this year into a first-in-the-nation partnership with the U.S. Department of the Treasury's Financial Management Service which allows Maryland to intercept federal vendor payments to satisfy state income tax liabilities. In the program's first week alone, more than \$49,000 from nearly 70 vendors was returned back to state coffers. As more federal agencies join the program and additional state liabilities are added, the program is expected to yield millions more in back taxes owed to the state.

In addition, the Comptroller's Office successfully pushed for legislation recently signed into law that outlaws "captive" Real Estate Investment Trust (REITs) and forces companies to include income paid to them in their federal taxable income. With nearly two-thirds of all of the country's REITs located here in Maryland, this legislation will protect all businesses by creating a level playing field and eliminating this specific tax avoidance practice.

With one of the strongest economies in the country, Maryland possesses a dynamic and diverse workforce with much potential for future growth. In ensuring that all individuals and businesses have an opportunity to succeed, our office is committed to using all available tools now and in the future to aggressively pursue those who do not pay their fair share of taxes and hurt law-abiding Marylanders.

Expanding Opportunities for Working Families

In staying true to the progressive values which I have held through my time in public service, I am committed as Comptroller to doing what I can to expand greater opportunities for hard-working families.

That is why as the chief fiscal officer of Maryland, I am proud to help educate taxpayers about existing tools, such as the Earned Income Tax Credit (EITC). As a tax benefit for individuals with incomes ranging from about \$12,000 to \$38,000, depending on the number of children in the family, the EITC is the best tool available to help combat poverty and move more families toward financial self-sufficiency.

Furthermore, the Comptroller's Office is proud to work with partners such as the Maryland CASH Campaign in offering free tax preparation and information about the other credits available. In doing so, these free services discourage the use of refund anticipation loans, which are predatory lending practices targeted at our most vulnerable taxpayers.



We have made other significant strides in streamlining the tax payment process by recently unveiling two new online customer service features on the agency's Web site. With these innovations, Maryland is now one of the first states in the country to offer online options for establishing direct debit payment plans for personal income tax liabilities as well as submitting hearing appeal requests based a taxpayer's availability.

Thanks to my two predecessors and our dedicated employees, the Comptroller's Office has earned a sterling reputation for providing professional service to Maryland taxpayers. However, in seeking to take this great office to the next level, I am also proud to bring my own values to the job - values which seek to strengthen working families and expand opportunities for all.

Strengthening Our Quality of Life

As Marylanders, we are fortunate to possess a diverse economy and natural treasures that are unrivaled by all but a few states. But while there is much to be proud of, our quality of life stands threatened if we do not make the necessary investments to preserve our natural and economic resources for future generations to come.

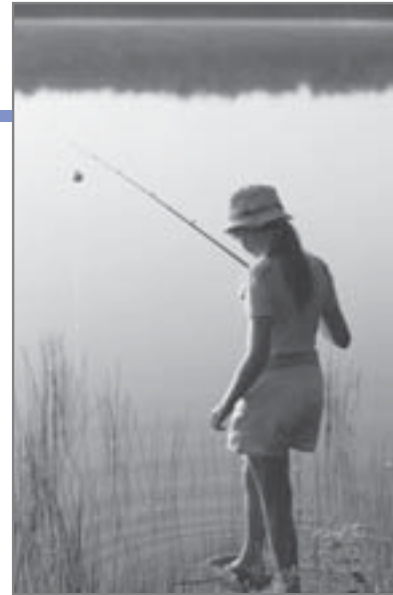
That is why the Comptroller's Office has taken the lead in promoting the use of tax-saving and environmentally-friendly technologies in public buildings and in state vehicles. With rising energy costs and the deteriorating state of the Chesapeake Bay, "green technology" is a common-sense way to not only save taxpayer money in the long-run, but also help to put the breaks on future environmental degradation.

As I travel all across Maryland, I have been encouraged to see many schools and businesses set an example for their community by making the transition to going "green." Furthermore, I am encouraged that Maryland is beginning to put its money where its mouth is by committing to expand the use of hybrid vehicles in the state fleet.



In working with our county and local officials to promote these new and innovative technologies, I am also committed to developing the life sciences industry as the long-term engine for our economy. With existing infrastructure across the state, Maryland stands poised to be the national leader in this growing field, which will bring good paying jobs with benefits to all our communities.

With Maryland making the transition to a 21st century economy, it is now more important than ever that we pursue policies which will preserve our state's resources and lead to sustainable economic growth. By investing in "green" technology and the life science industry, we will be setting Maryland up to become a leader in this globalized economy and protect the quality of life we have come to enjoy.



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Enos

Executive Director

State of Maryland

COMPREHENSIVE ANNUAL FINANCIAL REPORT *for the fiscal year ended June 30, 2007*

Contents

INTRODUCTORY SECTION

Selected State Officials.....	i
State Organization Chart.....	ii
GFOA Certificate of Achievement.....	viii
State Comptroller's Letter of Transmittal	2

FINANCIAL SECTION

Report of Independent Public Accountants	8
Management's Discussion and Analysis.....	10

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Assets	22
Statement of Activities	24

Governmental Funds Financial Statements

Balance Sheet	26
Reconciliation of the Governmental Funds' Fund Balance to the Statement of Net Assets' Net Assets Balance	27
Statement of Revenues, Expenditures, and Changes in Fund Balances	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	29

Enterprise Funds Financial Statements

Statement of Fund Net Assets	32
Statement of Revenues, Expenses and Changes in Fund Net Assets	35
Statement of Cash Flows	36

Fiduciary Funds Financial Statements

Statement of Fiduciary Net Assets	38
Statement of Changes in Fiduciary Net Assets	39

Component Units Financial Statements

Combining Statement of Net Assets	42
Combining Statement of Activities	44

<i>Notes to the Financial Statements</i>	45
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal Funds	84
Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances	86
Required Supplemental Schedule of Funding Progress for Pension and Retirement System.....	87
Required Supplemental Schedule of Funding Progress for Maryland Transit Administration Pension Plan	88
Notes to Required Supplementary Information	89

COMBINING FINANCIAL STATEMENTS

Non-major Governmental Funds

Combining Balance Sheet.....	93
Combining Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Fund Balances	94

Non-major Enterprise Funds

Combining Statement of Net Assets	96
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	97
Combining Statement of Cash Flows	98

Fiduciary Funds

Combining Statement of Fiduciary Net Assets - Pension and Other Employee Benefits Trust Funds	100
Combining Statement of Changes in Plan Net Assets - Pension and Other Employee Benefits Trust Funds	101
Combining Schedule of Fiduciary Net Assets - Retirement and Pension System of Maryland.....	102
Combining Schedule of Changes in Plan Net Assets - Retirement and Pension System of Maryland.....	103
Combining Statement of Fiduciary Net Assets - Agency Funds	104
Combining Statement of Changes in Assets and Liabilities - Agency Funds.....	105

Non-major Component Units

Combining Statement of Net Assets	107
Combining Statement of Activities	108

STATISTICAL SECTION

Introduction	110
Net Assets by Component, Primary Government - Last Six Fiscal Years.....	111
Changes in Net Assets - Last Six Fiscal Years	112
Expenses by Function, Primary Government - Last Six Fiscal Years	113
Revenues, Primary Government - Last Six Fiscal Years.....	114
Fund Balances, Governmental Funds - Last Ten Fiscal Years	115
Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years.....	116
Personal Income Tax Filers by Subdivision Tax Year Ended December 31, 2006	118
State Personal Income Tax and Sales and Use Tax Rates - Last Ten Calendar Years	119
Personal Income Tax Filers and Liability by Income Level - Last Nine Tax Years Ended December 31.....	120
Sales and Use Tax Receipts by Principal Type of Business - Last Ten Fiscal Years	122
Schedule of Ratio of Outstanding Debt by Type - Last Six Fiscal Years	123
Ratio of General Bonded Debt To Actual Value and General Bonded Debt Per Capita - Last Ten Fiscal Years	124
Legal Debt Margin Information - Last Ten Fiscal Years.....	125
Schedule of Taxes Pledged to Consolidated Transportation Bonds and Net Revenues as Defined for Purposes of Consolidated Transportation Bonds Coverage Tests - Last Ten Fiscal Years	126
Ratio of Pledged Assets to Revenue Bonds, Community Development Administration - Last Ten Fiscal Years	127
Schedule of Demographic Statistics - Last Ten Years	128
Schedule of Employment by Sector - Prior Year and Nine Years Prior	129
Maryland's Ten Largest Private Employers	130
State Employees by Function/Program - Last Four Fiscal Years	131
Schedule of Miscellaneous, Operating and Capital Assets Statistics by Function - Last Four Fiscal Years.....	132

FINANCIAL SCHEDULES REQUIRED BY LAW

Schedule of Estimated and Actual Revenues By Source -Budgetary Basis	134
Schedule of Budget and Actual Expenditures and Encumbrances by Major Function - Budgetary Basis	135
Schedule of Changes in Fund Equities - Budgetary Basis	136
Schedule of Funds Transferred to Political Subdivisions	137
Schedule of Taxes Receivable from Collectors of State Property Taxes	138
Schedule of Estimated Revenues - Budgetary Basis	139
Schedule of General, Special, Federal, Current Unrestricted and Current Restricted Fund Appropriations - Budgetary Basis	140



State of Maryland

INTRODUCTORY SECTION



Peter Franchot
Comptroller

Honorable Members of the General
Assembly and the Governor,
State of Maryland

December 10, 2007

The Comprehensive Annual Financial Report (CAFR) of the State of Maryland (State), for the fiscal year ended June 30, 2007, includes the financial statements of the State as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller.

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of Maryland's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's basic financial statements by a firm of independent auditors selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Abrams, Foster, Nole & Williams, P.A., has been included in the financial section of this report. In addition, Abrams, Foster, Nole & Williams, P.A. performed an audit to meet the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and such information is contained in another reporting package.

The State has issued guidelines to its agencies for establishing effective internal controls. As a recipient of Federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines.

The accompanying financial statements include all funds of the State (primary government), as well as all component units. Component units are legally separate entities for which the primary government is financially accountable. The various colleges and universities, the College Savings Plans of Maryland, and the Maryland Stadium Authority are reported as major component units. The Maryland Environmental Service, the Maryland Industrial Development Financing Authority, the Maryland Food Center Authority and the Maryland Technology Development Corporation are combined and presented as non-major component units.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent public accountants.

Background Information on the State:

Maryland ratified the United States Constitution on April 28, 1788. Its capital is Annapolis, where the principal activities of state government are centered. Its employment is based largely in services, trade and government. These sectors, along with finance, insurance and real estate are the largest contributors to the gross state product. The State has a bicameral legislature, the General Assembly, composed of the Senate with 47 members and the House of Delegates with 141 members. The General Assembly meets annually for a 90-day session beginning on the second Wednesday in January.

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations. Maryland maintains its accounts to conform with the legally mandated budget and also to comply with generally accepted accounting principles. Financial control is generally exercised under the budgetary system.

There is a Spending Affordability Committee which consists of certain designated officers of the General Assembly and other members as may be appointed by the President of the Senate and the Speaker of the House of Delegates. Each year the Committee must submit a report to the General Assembly's Legislative Policy Committee and to the Governor recommending the level of State spending, the level of new debt authorization, the level of State personnel and the use of any anticipated surplus funds.

Also, the General Assembly created a Capital Debt Affordability Committee, the members of which are the Treasurer, the Comptroller, the Secretary of Budget and Management, the Secretary of Transportation, and one person appointed by the Governor. This Committee is required to submit to the Governor by September 10 of each year an estimate of the maximum amount of new general obligation debt that prudently may be authorized. The Committee's recent reports encompass all tax supported debt, including in addition to general obligation debt, bonds issued by the Department of Transportation, bonds issued by the Maryland Stadium Authority and capital lease transactions. Although the Committee's responsibilities are advisory only, the Governor is required to give due consideration to the Committee's finding in preparing a preliminary allocation of new general obligation debt authorizations for the next ensuing fiscal year.

Information on the State's Economic Condition:

Maryland's economy, like the national economy, has grown at a lackluster pace over the past year, though it has continued to grow. Employment growth was under 1.0% from the third quarter of 2006 through the second quarter of 2007, although it rebounded to 1.5% in the third quarter of this year. Personal income grew 5.8% the first half of this year, essentially the same pace as 2006, while wage and salary growth has actually accelerated about a third of a percentage point to 5.7%. Unemployment, the one measure by which Maryland clearly outperforms the nation, currently stands at a low 3.9%, supporting income growth and acting perhaps as a limiting factor on job growth.

All of the uncertainties and drags at the national level—energy prices, credit concerns, financial market volatility, declining consumer confidence and especially the troubled housing market—are affecting the State's economy. But the economy has to date absorbed all of the bad news, and expectations of future bad news, and continued to expand. The key question at this point is whether future expectations regarding the housing market are accurate. It appears that most economists have chased the bad news, adjusting forecasts downward with every new release of data. Direct and indirect effects of the housing market downturn and the impact of resets of adjustable rate mortgages, which had been expected for some time and have been unfolding since late 2005, have now had a measurable impact on the State's economy and are likely to pose an increasingly formidable challenge to economic growth through the end of next year and perhaps beyond.

At present, fallout from the housing market seems likely to hold back the State's economy through 2008, directly or indirectly affecting virtually every industry. The possibility exists that these issues will develop to such an extent that the national or State economies slip into recession. The housing market in Maryland has deteriorated rapidly in recent months—sales of existing homes in September were down 38% from September 2006, and are now nearly 60% below 2004 levels. September was the third lowest sales month since January 2000. For the first time on record, sales in September were lower than sales the prior January and February, which does not bode well for the near term. The median sales price of existing homes sold dropped 9.3% from June to September, more than twice the seasonal decline experienced in any other year this decade. As a result of a sharp decline in sales and apparently falling prices, the active inventory of existing homes for sale has increased nearly 12,000 units over the course of this year to just over 50,000, a record high.

The first effects of the deteriorating housing market on the broader economy have shown themselves in the construction industry. Employment in residential construction dropped noticeably in the first quarter of 2007 (the latest detailed data available). Employment at single-family housing contractors was down 12.9%, while multi-family contractors experienced an 8.8% contraction, both dropping at faster rates than the fourth quarter, when they fell 10.2% and 0.9%. Altogether, residential construction jobs dropped 5.4% in the first quarter after falling 0.9% in the fourth quarter of 2006. Developments in the housing market since then give no hope for recovery in the near future.

Some of the jobs lost on the residential side may shift to the nonresidential side of the construction industry. The high demand in Maryland for school construction, facilities at community colleges and public institutions of higher education,

new roads and maintenance of existing transportation facilities will not be satisfied in the near future, and thus at least half of the nonresidential construction sector has at worst a very stable outlook. With the State's Capital Debt Affordability Committee recommending a 15% increase for the fiscal year 2009 capital program and the recent court decision allowing construction of the inter-county connector, the outlook for public construction could be one of accelerating growth, absorbing some of the downturn in the residential sector. Likewise, the outlook for commercial construction is moderately positive. Rents for commercial property in Bethesda are currently 40% of those in the District of Columbia and 60% of those in Northern Virginia, providing an attractive alternative. The Base Realignment and Closure Commission (BRAC) activity, which may also absorb some of the excess residential capacity, will help to support commercial rents and construction in the Baltimore region.

The financial services industry will also be directly affected by the housing slowdown. Two mortgage brokerages have already reported layoffs totaling 250 employees, and more are likely to follow. In addition, resets of adjustable rate mortgages are expected to continue at very high levels through the end of 2008. These factors, along with volatility in the stock markets, the loss of spending power from those in the construction and finance industries who have lost their jobs, and high and once again rising energy prices (which have diverted up to 2.5% of personal income from other spending over the past two years), may keep consumer spending from strengthening appreciably in the near term. The only significant counterbalances are low interest rates and a relatively tight labor market in Maryland.

Weak consumer spending—as demonstrated by growth in State sales tax collections of just 1.9% in fiscal year 2007—translates into low profit growth and flat employment for the trade industry, particularly retail trade. Car sales have been flat for more than two years, and may have recently resumed the longer-term downward trend.

Weak consumer spending will also affect the leisure and hospitality services sector, although the weak dollar may help to cushion the blow by encouraging international tourism. Passenger traffic at BWI Thurgood Marshall Airport surpassed pre-September 11 levels in 2006, due partly to the continuing expansion of Southwest and AirTran Airlines.

Government, which has acted as a stabilizing factor for the State's economy for some time, will also be affected by the housing market through the effect on tax revenues. At the federal level, individual income tax revenues from capital gains on both owner occupied and non-owner occupied residential property will decline; that factor will also affect State income tax revenues. State revenues will also be affected through the estate tax, sales tax, and certain court-related revenues, while local governments will largely be affected through recordation and transfer taxes (property tax growth will be largely unaffected due to the homestead property tax credits, which cap growth in the taxable assessment at 10% or less annually for owner-occupied property; given the enormous run-up in prices, it will be quite some time before taxable assessments reach market values, even if prices fall 10%).

These fiscal pressures may cause a belt-tightening at the State and local levels, although the outcome of the special session of the General Assembly may provide the State, in particular, more flexibility. Federal employment in the State will have declined five consecutive years by the end of 2007, but the federal fiscal situation has improved in recent years. Federal spending in the State on science and technology dropped in the second half of 2006, but spending on defense and homeland security continues at high levels. Maryland received less than 5% of total federal procurement spending in 1997, a share that has grown by over a full percentage point since then. BRAC aside, government may not be an engine of growth over the next several years, but it should continue to be a large stabilizing presence for the State's economy.

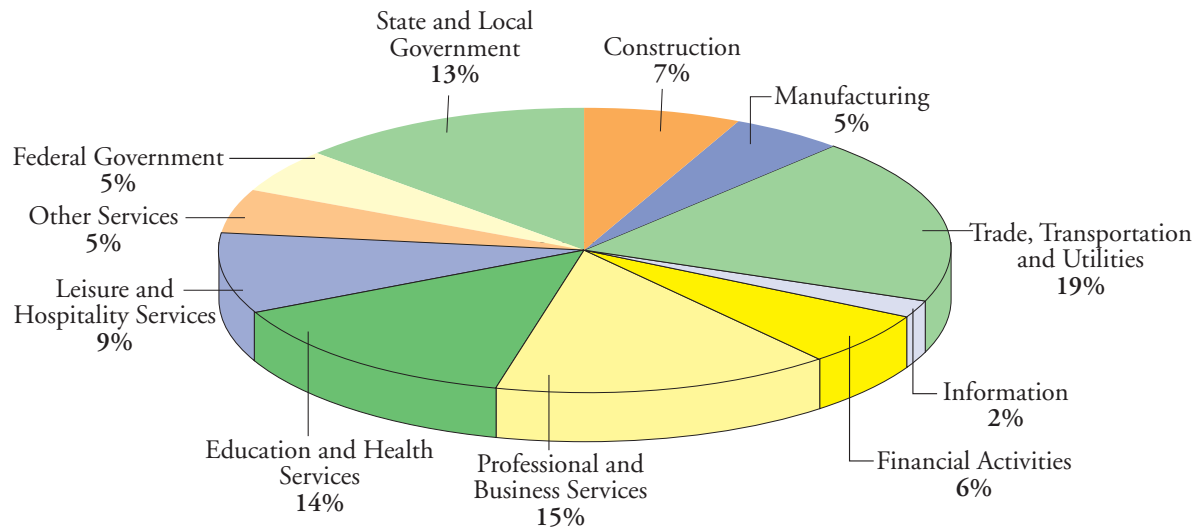
Another stabilizing sector over the near term, and one that will provide some growth, is the health and education services industry. Federal spending does support this sector, with a disproportionately large 5% of federal health spending coming to the State. Over 90% of that funding is focused in Baltimore. More broadly, Maryland receives the third highest amount of science and engineering funding from the federal government (over three-quarters of which is health and education related), behind only California and New York. The health research/services infrastructure which has built up around Baltimore City and the Washington suburbs will continue to have additional resources funneled to it.

Risks to the forecast are clearly on the downside. The largest negative risk, particularly in Maryland, is the development of a self-reinforcing downward cycle in the housing market. There is a possibility that, as the economy slows and ARMs continue to reset, foreclosures will increase. As the supply of homes expands, further downward pressure will be exerted on prices. In turn, more potential buyers will delay purchases, while at the same time it becomes more difficult for those facing resets to refinance before the higher payments (often 30% higher) come due, further expanding the supply. The impact of such a vicious cycle on the broader economy would be substantial, even more so if mortgage-related risks are currently mispriced in the stock and bond markets. Longer-term risks for the State's economy include slowing population growth. Current Census estimates show decelerating growth each year since 2001 in Maryland, with 2006 growth of under 0.5%, the weakest since 1979. This trend may be reversed over the next several years due to BRAC activity, but growth in population seems unlikely to exceed 1.0% any time in the foreseeable future.

There are positive factors working in Maryland's favor. Of the 50 states, Maryland has the highest median household income, the fifth-highest per capita personal income, the fourth-lowest poverty rate and the fourth-highest percentage of residents with a bachelor's degree, all of which make Maryland a desirable location for both employers and employees. The concentration of high-tech and bioscience companies around Baltimore and Washington, including Northern Virginia, will act as a long-term catalyst for growth. And upcoming BRAC activity will, at the very least, provide an extra boost to the State's economy as it resumes stronger growth in 2009. Maryland is well-positioned for future economic growth, once the imbalances caused by the housing market have worked through the system.

Forecast 2008, Maryland Employment

2,628,000 Jobs



Major Budgetary Initiatives:

The State's fiscal year 2008 budget grows by 2.5% over the current year. The budget includes \$400 million for public school construction and an increase of more than \$680 million in kindergarten thru grade twelve education. In addition, funding for higher education is increased by \$192 million.

Budgetary initiatives for public safety include funding to hire additional correctional officers and investment in technology and forensic scientists for DNA testing. Also, \$289 million in funding is provided for land preservation programs, and \$138 million is provided to improve local water and wastewater systems to help clean the Chesapeake Bay.

For healthcare initiatives, the State is providing \$25 million for stem cell research, expanding the Senior Drug Assistance program and restoring healthcare benefits to legal immigrant families. In addition, for Transportation, the State is investing more than \$1 billion in highway projects, \$500 million in transit and \$124 million in the Port.

Because the governor is required by law to submit a balanced budget and the fiscal year 2009 budget was anticipated to have an approximately \$1.5 billion deficit, the governor convened a special legislative session in October, 2007 to address this issue. The session increased various taxes to provide sufficient revenues when combined with anticipated spending cuts to eliminate the projected deficit.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Maryland has received a Certificate of Achievement for the last 26 consecutive years (fiscal years ended 1980-2006). We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the General Accounting Division with assistance from other personnel from the various departments and agencies of the State.

I will be pleased to furnish additional information on the State's finances upon request.

Sincerely,

A handwritten signature in dark ink, appearing to read "Peter Franchot". The signature is fluid and cursive, with a large, stylized initial "P" and a long, sweeping flourish at the end.

Peter Franchot,
Comptroller of Maryland

State of Maryland

FINANCIAL SECTION

Abrams, Foster, Nole & Williams, P.A.

Certified Public Accountants

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Member: American Institute of Certified Public Accountants
and Maryland Association of Certified Public Accountants

December 10, 2007

Report of Independent Public Accountants

The Honorable Peter Franchot
Comptroller of Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland (the State), as of June 30, 2007 and for the year then ended, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements, schedules and supplementary information are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of (1) certain Economic Development – Loan Programs; (2) Unemployment Insurance Program; (3) Maryland State Lottery Agency; (4) Maryland Transportation Authority; (5) Economic Development Insurance Programs; (6) certain foundations included in the higher education component unit; (7) Maryland Environmental Service; (8) Maryland Food Center Authority; (9) Maryland Technology Development Corporation; (10) Investment Trust Fund; and (11) Deferred Compensation Plan, which represent the percentages of the assets, net assets and operating revenues or additions of the opinion units listed below.

	Percentage of Opinion Unit		
	Total Assets	Total Net Assets	Total Operating Revenues
Business type activities:			
Economic Development-Loan Programs	50.57 %	35.11 %	7.5 %
Unemployment Insurance Program	12.00	22.30	16.02
Maryland State Lottery Agency	2.79	0.27	60.83
Maryland Transportation Authority	30.97	35.54	13.44
Economic Development-Insurance Programs	1.15	2.02	0.09
Total percentage of business type activities	97.48	95.24	97.88
Component units:			
Major -			
Higher Education Foundations	16.03	18.59	4.19
Non-Major -			
Maryland Environmental Service	1.02	0.25	3.00
Maryland Food Center Authority	0.30	0.43	0.13
Maryland Technology Development Corp.	0.13	0.08	0.29
Total percentage of component units	17.48	19.35	7.61
Fiduciary Funds:			
Investment Trust Fund	4.08	4.39	37.20
Deferred Compensation Plan	5.00	5.43	3.31
Total percentage of fiduciary funds	9.08	9.82	40.51

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned funds and component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland as of June 30, 2007, and the respective changes in the financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, required supplemental schedules of funding progress for the Pension and Retirement System and the Maryland Transit Administration Pension Plan, and the respective budgetary comparison for the budgetary general, special and Federal funds as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of Maryland's basic financial statements. The combining financial statements, schedules, introductory and statistical sections, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report and the financial schedules required by law have not been subjected to the auditing procedures applied by us or the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Abans, Fost, Nole & Williams

STATE OF MARYLAND

Management's Discussion and Analysis

Management of the State of Maryland provides this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2007. Please read it in conjunction with the Comptroller's letter of transmittal, which can be found in the Introductory Section of this report and the State's financial statements which follow this section.

Financial Highlights

Government-wide

- Maryland reported net assets of \$18.6 billion in fiscal years 2007 and 2006.
- Of the net assets in fiscal year 2007, a balance of \$1.2 billion was reported as total unrestricted net assets, which includes a \$559 million deficit balance in governmental activities and a \$1.7 billion balance in business-type activities.
- The State's total net assets decreased by \$14 million as a result of this year's operations. The net assets for governmental activities decreased by \$313 million (2.3 %). Net assets of business-type activities increased by \$299 million (6.1%).
- The State's governmental activities had total expenses of \$24.7 billion, total revenues of \$24.0 billion and net transfers from business-type activities of \$350 million for a net decrease of \$313 million.
- Business-type activities had total expenditures of \$2.2 billion, program revenues of \$2.9 billion, and transfers out of \$350 million for a net increase in net assets of \$299 million.
- Total State revenues were \$26.9 billion, while total costs for all programs were \$26.9 billion.

Fund Level

- Governmental funds reported a combined fund balance of \$3.9 billion, a decrease of \$358 million (8.4%) from the prior year.
- The General Fund reported an unreserved fund balance of \$885 million and a reserved fund balance of \$2.4 billion, compared to an unreserved fund balance of \$2.0 billion and a reserved fund balance of \$1.5 billion last year. This represents a net decrease of \$274 million in general fund, fund balance. The total unreserved fund balance in the governmental funds was \$1.0 billion, compared to the unreserved fund balance of \$2.2 billion in the prior year.
- Governmental funds reported a total reserved fund balance of \$2.9 billion in 2007, compared to \$2.1 billion in the prior year. Of this amount, \$1.6 billion was in the "State Reserve Fund" and available for future needs, an increase of \$784 million over the prior year.

Long-term Debt

- Total bonds, obligations under long-term leases and other nontraditional Transportation debt at year end was \$11.6 billion, a net increase of \$1.6 billion (15.4%) over the prior year.
- \$679 million General Obligation Bonds and \$100 million Transportation Bonds were issued during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State of Maryland's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists readers in assessing the State's economic condition at the end of the fiscal year. The statements include all fiscal year revenues and expenses, regardless of whether cash has been received or paid. The government-wide financial statements include the following two statements.

The *Statement of Net Assets* presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The above financial statements distinguish between the following three types of state programs or activities:

Governmental Activities – The activities in this section are typically supported by taxes and intergovernmental revenues, i.e., federal grants. Most services normally associated with State government fall into this category, including the Legislature, Judiciary, and the general operations of the Executive Department.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include insurance and loan programs for economic development, the Unemployment Insurance Program, the Lottery, the Transportation Authority and Maryland Correctional Enterprises, a program which constructs office furnishings utilizing the prisons' inmate population.

Discretely Presented Component Units – The government-wide statements include operations for which the State has financial accountability, but are legally separate entities. Financial information for these component units is reported separately from the financial information presented for the primary government. The component unit activities include Higher Education, the College Savings Plans of Maryland, the Maryland Stadium Authority and other non-major proprietary activities. All of these entities operate similarly to private sector business and to the business-type activities described above. The component unit Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College and Baltimore City Community College and certain affiliated foundations. The non-major component units include the Maryland Food Center Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority, and the Maryland Technology Development Corporation.

Complete financial statements of the individual component units can be obtained from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

This report includes two schedules (pages 27 and 29) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned and other assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but are recognized on the government-wide statements.
- Deferred bond issuance costs are capitalized and amortized on the government-wide statements, but reported as expenditures in governmental funds.
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, and bonds and notes payable, only appear as liabilities in the government-wide statements.
- Capital outlays result in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other transactions represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The government-wide financial statements can be found on pages 22-25 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental, enterprise, and fiduciary. Each of these categories uses a different accounting approach.

Governmental funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the pages immediately following the governmental funds financial statements.

The State maintains five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Department of Transportation-special revenue fund, both of which are considered to be major funds. Data from the remaining three governmental funds are combined into a single, aggregated presentation. Data for the non-major governmental funds, namely, the debt service fund for general obligation bonds, the debt service fund for transportation revenue bonds and the capital projects fund, is provided in the form of combining statements elsewhere in this report. These funds are reported using modified accrual accounting, which measures cash and all other assets which can be readily converted to cash. The basic governmental funds financial statements can be found on pages 26 and 28 of this report.

Enterprise funds – Enterprise funds are used to show activities that operate similar to activities of commercial enterprises. These funds charge fees for services provided to outside customers including local governments. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the enterprise fund financial statements because they both utilize accrual accounting, the same method used for businesses in the private sector.

The State has six enterprise funds, four of which are considered to be major enterprise funds. These funds are: Economic Development - Loan Programs, the Unemployment Insurance Program, the Lottery Agency, and the Transportation Authority. Data for the non-major enterprise funds, Economic Development - Insurance Programs and Maryland Correctional Enterprises, are combined into a single aggregated presentation. Individual fund data for these non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic enterprise funds financial statements can be found on pages 32-37 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are restricted in purpose and are not available to support the State's own programs. Fiduciary funds use accrual accounting.

The State's fiduciary funds include the Pension and Other Employee Benefits Trust Funds, the Investment Trust Fund and Agency Funds. The Pension and Other Employee Benefits Trust Funds consist of the Retirement and Pension System, the Maryland Transit Administration Pension Plan and the Deferred Compensation Plan. The Investment Trust Fund accounts for the transactions, assets, liabilities and fund equity of an external investment pool. Agency funds account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals. Individual fund detail for the fiduciary funds can be found in the combining financial statements.

The basic fiduciary funds financial statements can be found on pages 38-39 of this report.

Combining Financial Statements, Component Units – The government-wide financial statements present information for the component units in a single aggregated column in the Statement of Net Assets and the Statement of Activities. Combining Statement of Net Assets and Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets have been provided for the Component Unit Proprietary Funds and provide detail for each major proprietary component unit, with a combining column for the non-major component units. Individual financial statement information for the non-major component units is provided elsewhere in this report.

The combining financial statements for the component units can be found on pages 42-44 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 46-81 of this report.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the budgetary general, special revenue and federal funds, along with a reconciliation of the statutory and Generally Accepted Accounting Principles (GAAP) fund balances at fiscal year end. This report also presents certain required supplementary information concerning the State's progress in funding obligations to provide pension benefits and includes a footnote concerning budgeting and budgetary control. Required supplementary information immediately follows the notes to the financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements referred to earlier in connection with non-major governmental, enterprise, and fiduciary funds and non-major component units are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The State's combined net assets (government and business-type activities) totaled \$18.6 billion at the end of 2007 and 2006.

Net Assets as of June 30, 2007

(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$13,600	\$10,103	\$7,576	\$6,319	\$21,176	\$16,422
Capital assets	18,181	17,589	1,865	1,569	20,046	19,158
Total assets	31,781	27,692	9,441	7,888	41,222	35,580
Long-term liabilities	8,218	7,753	3,910	2,647	12,128	10,400
Other liabilities	10,180	6,243	356	365	10,536	6,608
Total liabilities	18,398	13,996	4,266	3,012	22,664	17,008
Net assets:						
Invested in capital						
assets, net of related debt	13,853	13,406	1,614	1,304	15,467	14,710
Restricted	89	150	1,836	1,902	1,925	2,052
Unrestricted	(559)	140	1,725	1,670	1,166	1,810
Total net assets	\$13,383	\$13,696	\$5,175	\$4,876	\$18,558	\$18,572

The largest portion of the State's net assets, \$15.5 billion, reflects investment in capital assets such as land, buildings, equipment, and infrastructure, less any related debt to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens. Consequentially, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, a portion of the State's net assets, \$1.9 billion, represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance for unrestricted net assets, \$1.2 billion, reflects the State's revenues over expenses.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

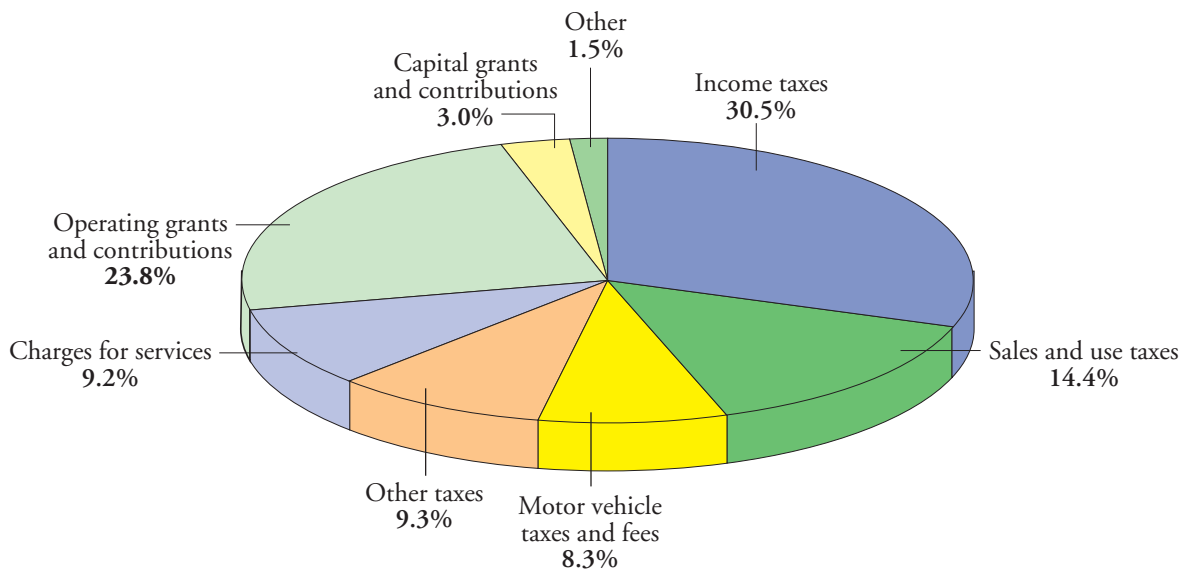
Changes in Net Assets

For the Year Ended June 30,

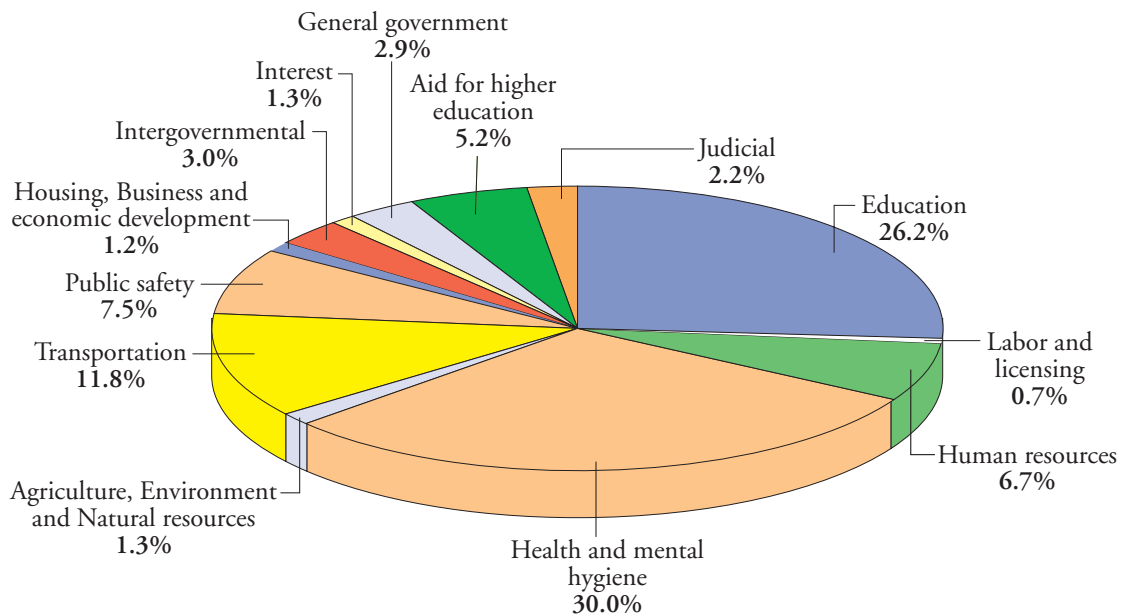
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 2,217	\$ 1,956	\$2,747	\$2,782	\$ 4,964	\$ 4,738
Operating grants and contributions	5,725	5,323	26	27	5,751	5,350
Capital grants and contributions	727	794	50	42	777	836
General revenues:						
Income taxes	7,334	7,120			7,334	7,120
Sales and use taxes	3,449	3,386			3,449	3,386
Motor vehicle taxes	1,982	1,983			1,982	1,983
Other taxes	2,244	2,333			2,244	2,333
Unrestricted investment earnings	350	251	31	4	381	255
Total revenues	24,028	23,146	2,854	2,855	26,882	26,001
Expenses:						
General government	713	693			713	693
Health and mental hygiene	7,400	6,588			7,400	6,588
Education	6,470	5,702			6,470	5,702
Aid for higher education	1,299	1,103			1,299	1,103
Human resources	1,647	1,623			1,647	1,623
Public safety	1,853	1,675			1,853	1,675
Transportation	2,913	2,382			2,913	2,382
Judicial	542	507			542	507
Labor, licensing and regulation	168	158			168	158
Natural resources and recreation	167	182			167	182
Housing and community development	229	217			229	217
Environment	93	85			93	85
Agriculture	59	57			59	57
Business and economic development	66	57			66	57
Intergovernmental grants	739	979			739	979
Interest	333	318			333	318
Economic development insurance programs			2		2	
Economic development loan programs			249	177	249	177
Unemployment insurance program			446	404	446	404
State Lottery			1,094	1,061	1,094	1,061
Transportation Authority			368	335	368	335
Maryland Correctional Enterprises			46	41	46	41
Total expenses	24,691	22,326	2,205	2,018	26,896	24,344
Increase in net assets						
before transfers and special items	(663)	820	649	837	(14)	1,657
Transfers and special items	350	458	(350)	(458)		
Change in net assets	(313)	1,278	299	379	(14)	1,657
Net assets - beginning	13,696	12,418	4,876	4,497	18,572	16,915
Net assets - ending	\$13,383	\$13,696	\$5,175	\$4,876	\$18,558	\$18,572

Revenues by source — Governmental Activities



Expenditures by function — Governmental Activities



Governmental Activities

Comparing current year activities to the prior year discloses that revenues increased by \$882 million or 3.8%, while expenses increased by \$2.4 billion or 10.6%. The revenue increase was primarily due to an increase of \$214 million in income taxes, \$402 in operating grants and \$261 million in charges for services. Overall, the increase in expenses was due to increases in education (\$964 million), health and mental hygiene (\$812 million), transportation (\$531 million) and public safety (\$178 million). By law, the governor's budget may not predict a deficit balance at the end of the year. Accordingly, since this decline was predicted to continue, the governor convened a special legislative session in October, 2007 to address the budgetary structural deficit.

Revenues continued to increase, but at a much slower rate than last year as a result of the slowing economy. Sales tax revenues remained virtually unchanged, due to the decline in construction related revenues as a result of problems in the housing market. Operating grants increased, primarily due to increased federal revenues for Medicaid and child care, and charges for services increased primarily due to increased healthcare cost recoveries and tobacco settlement revenues.

The increase in expenditures for education was primarily to fund the “Bridge to Excellence in Public Schools Act”, funding for which has been phased in over the last several years, with full funding in the next fiscal year. Increases in health and mental hygiene were primarily due to increased Medicaid costs, and increases in public safety were due to increased salaries and overtime costs and purchase of care for juveniles.

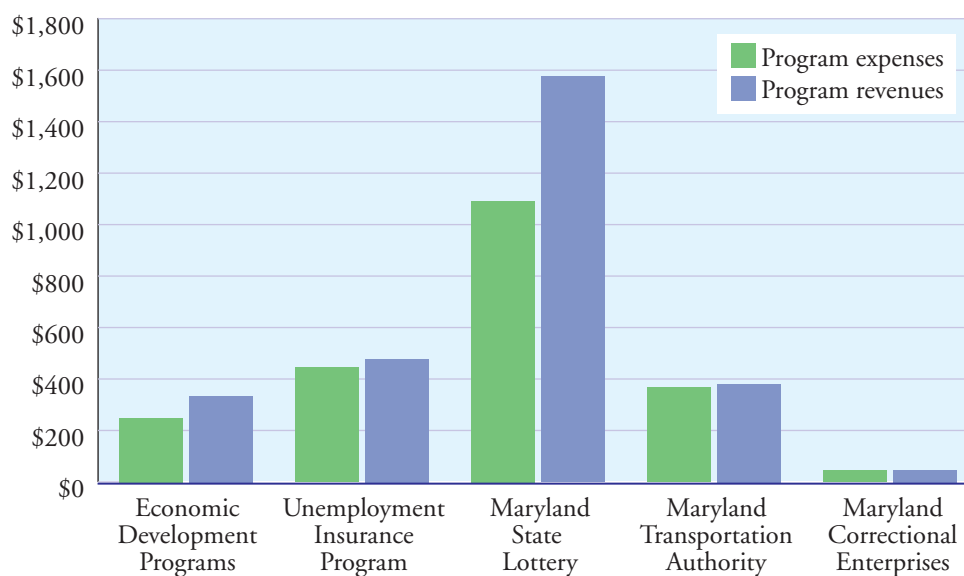
Business-type Activities

Business-type activities increased the State’s net assets by \$649 million before transfers of \$350 million to governmental activities. This increase compares to an increase of \$837 million before transfers of \$458 million in the prior year. Key elements of this increase are as follows:

- The change in net assets for the Unemployment Insurance Program was an increase of \$23 million compared to a net increase of \$153 million in the prior year. Operating income produced a deficit of \$30 million, however, non-operating revenues of \$64 million, primarily from interest income, contributed to the \$23 million increase in Net Assets. The Program had a decrease of \$77 million (14.2%) in charges for services from the prior year due to a reduction in the minimum tax rate for the calendar year 2007, while benefit payments increased \$42 million over the prior year. In addition, the Program, in accordance with federal regulations, transferred \$10.1 million to the governmental funds due to an excess fund balance.
- Economic Development Loan Programs had an increase of \$172 million (9.2%) in net assets over the prior year. This increase was primarily due to an increase in net assets for loans and grants for wastewater projects and upgrades to the State’s wastewater treatment plants and due to an increase in housing program funds. Revenue bonds outstanding for the housing programs increased by \$1 billion (47.9%).
- Lottery ticket sales were \$1.6 billion, an increase of \$16 million (1.1%) over last year. However, operating expenses increased by \$33 million and transfers to the governmental funds decreased from \$501 million in 2006 to \$494 million in 2007.
- The change in net assets of the Maryland Transportation Authority was an increase of \$109 million compared to a net increase of \$92 million for the prior year. This increase was primarily due to a transfer of \$83 million from the governmental funds, since net income before transfers was \$26 million in 2007 compared to \$92 million for 2006.

Expenses and Program Revenues — Business-type Activities

(Expressed in millions)



Financial Analysis of the State’s Funds

As of the end of the current fiscal year, the State’s governmental funds reported a combined fund balance of \$3.9 billion, a decrease of \$358 million from the prior year. The combined fund balance includes \$827 million in unreserved, undesignated and \$195 million in unreserved, designated fund balance for the general fund. In addition, it includes \$163 million in unreserved, undesignated fund balance for the special

revenue fund and a deficit of \$26 million for the other governmental funds. The remainder of the fund balance is reserved because it has been committed to: 1) liquidate contracts and purchase orders of the prior period, (\$758 million); 2) fund prepaid and inventory items, (\$511 million); 3) restrict revenue carry forwards, (\$12 million); and 4) reserve for various loans, construction projects, and debt service, (\$27 million). In addition, \$1.6 billion of the reserved fund balance is in the "State Reserve Fund," and is set aside to meet future financial needs. By law, the governor must appropriate to the State Reserve Fund, the general fund surplus of the second preceding fiscal year that exceeds \$10,000,000. The unreserved general fund, fund balance, plus the amount in the State Reserve Fund, is approximately 9.7 % of the total annual expenditures in governmental funds, compared with 12.1% for the prior year.

General Fund

The general fund is the major operating fund of the State. At the end of the current fiscal year, the undesignated (\$690 million) and designated (\$195 million) fund balance of the general fund was \$885 million, while total fund balance reached \$3.3 billion. The fund balance of the State's general fund decreased by \$274 million during 2007, compared to an increase of \$911 million for 2006. The reason for the decrease in General Fund, fund balance is due to continued increases in expenditures, \$1.8 billion (9.5%), greater than increases in revenues, \$803 million (4.2%). The governor convened a special legislative session in October to address the predicted continued deficit in revenues over expenditures.

Revenues increased by \$803 million over the prior year, primarily due to increases in income taxes, federal grants and other miscellaneous revenues. While other taxes had a decrease of \$89 million primarily due to the decline in real estate sales, increases in taxes were supported by individual income taxes, which contributed 36.6% of the general fund revenues. In addition, capital gains, particularly from real estate, continued to support revenue growth. Sales tax revenues, which increased by 1.9%, were driven in large part by construction and utility-related sales. Federal revenues increased by \$366 million primarily due to increased Medicaid expenditures. Other revenues increased by \$107 million due to increased revenues from medical charges, tobacco suit revenues and other miscellaneous collections.

General fund expenditures increased by \$1.8 billion. Although expenditures for most functions remained stable or decreased, expenditures for education, health and mental hygiene and public safety increased by \$664 million (12.2 %), \$705 million (10.8 %), and \$184 million (11.5 %), respectively. These increases were the result of continued increased funding for education, continued increases in Medicaid costs and increased funding for public safety employees and for care of juvenile offenders. Education costs increased due to continues increases in funding for public schools, increases for universities and colleges, the transfer of the child care program from the human resources function and increased subsidies for the teachers' retirement system. Increases for Health and Mental Hygiene were due to increased Medicaid costs, while increases for public safety were for increased salary costs for correctional officers, overtime costs and healthcare costs for inmates and purchase of care for juvenile offenders.

Transfers out were \$533 million compared to \$369 million for the prior year. This increase was due primarily to an increase in general fund transfers to the capital projects fund to support various private and governmental projects and to the Economic Development Loan Programs to increase funding for housing loans and a general fund grant to the Maryland Transportation Authority.

Special Revenue Fund

The Maryland Department of Transportation special revenue fund accounts for resources used for operation other than debt service and pension activities of the State's transportation activities. The fund balance of the Department's special revenue fund was \$327 million as of June 30, 2007, a decrease of \$56 million (14.7%) from the prior fiscal year. This decrease was primarily due to an increase in the operating expenses of mass transit and aviation activities while revenues, except for federal reimbursements which declined, remained stable.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget, and the final budget and the actual expenditures for the year are summarized as follows.

Overall, the change between the original and final general fund budget was an increase of \$93 million or 0.7%. Appropriations were increased for Medicaid costs, medical service costs for inmates, increased personnel costs for prisons and juvenile residential facilities and increased costs of placements for committed youth. There was a decrease in Budget and Management appropriations which was primarily due to the reallocation of the original appropriation for salary cost of living adjustments from that department to the affected State agencies. In addition, there was a reorganization to transfer certain appropriations from the Executive Department and the Department of Business and Economic Development to the Department of Housing and Community Development.

Major differences between the final budget and actual expenditures were the result of encumbrances for additions and improvements to buildings and information technology equipment for the Legislature and for various multi-year projects related to public school construction. The variance within the Department of Housing and Community Development is primarily due to encumbrances for capital items for various housing programs. The Department of Business and Economic Development's variance is due to encumbered funds for the One Md Program, Film Rebate Program, and Maryland Stem Cell Research Program. The variance for the Department of Environment is primarily due to encumbrances for delayed projects and the Drinking Water Revolving Loan Fund program. The actual general fund expenditures during the year were \$258 million less than the final general fund budget. Of this amount, \$52 million was returned to the general fund, and the remaining \$206 million was encumbered for future spending.

Capital Asset and Debt Administration

Capital assets

At June 30, 2007, the State had invested \$20 billion (net of accumulated depreciation) in a broad range of capital assets (see table below). Depreciation expense for the fiscal year totaled \$984 million (\$920 million for governmental activities and \$64 million for business-type activities). The increase in the State's investment in capital assets, net of depreciation expense, for the current fiscal year was 4.6% (3.4 % for governmental activities and 18.9% for business-type activities).

Capital Assets as of June 30, 2007

(Net of Depreciation, Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land and improvements	\$ 2,775	\$ 2,657	\$ 253	\$ 121	\$ 3,028	\$ 2,778
Art and historical treasures	28	27			28	27
Construction in progress	2,751	2,680			2,751	2,680
Structures and improvements	3,383	3,369	24	27	3,407	3,396
Equipment	802	860	11	11	813	871
Infrastructure	8,442	7,996	1,577	1,410	10,019	9,406
Total	\$18,181	\$17,589	\$1,865	\$1,569	\$20,046	\$19,158

Major capital asset events during the current fiscal year for governmental activities included continued construction at the Baltimore Washington International Thurgood Marshall Airport, widening and/or expansion of existing highways and bridges, the preservation of agricultural and open space land through the purchase of easements, and building improvements in State prisons by the Departments of State Police and Public Safety. Elements of the increases in capital assets of business-type activities included engineering and land acquisitions for the State's Inter-County Connector and for electronic toll lane projects.

Additional information on the State's capital assets can be found in footnote 10 of this report.

Long-term debt

The State is empowered by law to authorize, issue and sell general obligation bonds, which are backed by the full faith and credit of the State. The State also issues dedicated revenue bonds for the Department of Transportation and various business-type activities. The payment of principal and interest on revenue bonds comes solely from revenues received from the respective activities. This dedicated revenue debt is not backed by the State's full faith and credit.

At June 30, 2007, the State had outstanding bonds totaling \$10.4 billion. Of this amount \$5.1 billion were general obligation bonds, backed by the full faith and credit of the State. The remaining \$5.3 billion was secured solely by the specified revenue sources.

Outstanding Bond Debt as of June 30, 2007

(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds (backed by the State)	\$5,142	\$4,868			\$ 5,142	\$4,868
Transportation Bonds (backed by specific revenues)	1,111	1,079			1,111	1,079
Revenue Bonds (backed by specific revenues)			\$4,140	\$2,883	4,140	2,883
Total	\$6,253	\$5,947	\$4,140	\$2,883	\$10,393	\$8,830

The total increase in bonded debt in the current fiscal year was 17.7% (5.6% increase related to general obligation bonds, and 2.9% and 43.6 % increase related to transportation and revenue bonds, respectively). The State's general obligation bonds are rated Aaa by Moody's and AAA by Standard and Poors and Fitch. During fiscal year 2007, the State issued general obligation debt totaling \$679 million at a premium of \$49 million. On August 16, 2007, (fiscal year 2008), the State issued general obligation bonds aggregating \$375 million for capital improvements.

State law limits the amount of Consolidated Transportation Bonds, dedicated revenue debt that may be outstanding as of June 30 to the amount established in the budget, not to exceed \$2 billion. The aggregate principal amount of those bonds that was authorized to be outstanding as of June 30, 2007, was \$1.2 billion. This amount was in excess of the \$1.1 billion in Consolidated Transportation Bonds outstanding.

Additional information on the State's long-term debt can be found in footnote 11 of this report.

Economic Factors and Next Year's Budget

The State was facing a structural deficit in the range of \$1.5 billion in the fiscal year 2009 budget. The State's budget for fiscal year 2008 grew by only 2.5% over the current year, a lower rate of growth than in nine of the last ten budgets. The fiscal 2008 budget is balanced on a cash basis, and, as of June 30, 2007, nearly \$1.6 billion in cash has been set aside for future needs. In addition, a special legislative session was convened in October, 2007 by the governor which passed increases in various taxes, including the personal and corporate income, sales, and other taxes, that are expected to generate approximately \$1.3 billion in new revenues.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Accounting Division, Office of the Comptroller, P.O. Box 746, Annapolis, Maryland 21404.



State of Maryland

BASIC FINANCIAL STATEMENTS

STATE OF MARYLAND

Statement of Net Assets

June 30, 2007

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents.....	\$ 1,895,962	\$ 193,002	\$ 2,088,964	\$ 71,202
Investments	4,729,089	320,193	5,049,282	559,550
Endowment investments				253,311
Foundation investments				905,691
Inventories.....	91,790	12,388	104,178	10,305
Prepaid items.....	419,241		419,241	6,317
Deferred charges.....	9,535		9,535	5,580
Taxes receivable, net	848,272		848,272	
Intergovernmental receivables.....	1,016,455		1,016,455	
Tuition contracts receivable				246,788
Due from primary government.....				932,239
Other accounts receivable.....	473,036	184,236	657,272	383,987
Loans and notes receivable, net.....	15,142	1,062,006	1,077,148	78,291
Investment in direct financing leases.....		460,499	460,499	279,222
Other assets	8,848	24,275	33,123	19,269
Collateral for lent securities	4,042,752		4,042,752	
Restricted assets:				
Cash and cash equivalents.....	41,182	2,029,008	2,070,190	120,967
Investments	2,381	1,299,335	1,301,716	36,358
Deferred charges		14,764	14,764	
Loans and notes receivable, net.....	5,825	1,944,711	1,950,536	
Other.....		30,994	30,994	26
Capital assets, net of accumulated depreciation:				
Land.....	2,774,673	253,238	3,027,911	139,084
Art and historical treasures.....	27,795		27,795	396
Structures and other improvements	3,382,946	23,868	3,406,814	3,023,488
Equipment	801,769	11,094	812,863	132,988
Infrastructure.....	8,442,526	1,576,980	10,019,506	354,129
Construction in progress.....	2,751,603		2,751,603	366,824
Total capital assets.....	18,181,312	1,865,180	20,046,492	4,016,909
Total assets	31,780,822	9,440,591	41,221,413	7,926,012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Salaries payable.....	124,177		124,177	64,912
Vouchers payable.....	447,483		447,483	
Accounts payable and accrued liabilities	1,605,650	242,163	1,847,813	162,265
Internal balances.....	393,405	(393,405)		
Due to component units	932,239		932,239	
Accounts payable to political subdivisions	220,315		220,315	
Unearned revenue.....	21,152	20,829	41,981	176,200
Matured bonds and interest coupons payable	323		323	
Accrued insurance on loan losses		6,650	6,650	1,920
Accounts payable for local income taxes.....	1,516,570		1,516,570	
Other liabilities.....				2,209
Collateral obligations for lent securities	4,042,752		4,042,752	
Bonds and notes payable:				
Due within one year	497,300	430,367	927,667	87,215
Due in more than one year	6,119,540	3,710,016	9,829,556	1,279,129
Other noncurrent liabilities:				
Due within one year	378,990	48,821	427,811	131,226
Due in more than one year	2,098,334	200,154	2,298,488	745,240
Total liabilities	18,398,230	4,265,595	22,663,825	2,650,316
Net Assets				
Invested in capital assets, net of related debt	13,853,102	1,613,891	15,466,993	3,004,205
Restricted for:				
Human resources	12,144		12,144	
Debt service.....	68,322	60,294	128,616	6,692
Capital improvements and deposits	2,517	78,459	80,976	33,294
Higher education-nonexpendable				609,605
Higher education-expendable				538,869
Unemployment compensation benefits		1,154,024	1,154,024	
Loan programs.....	5,825	433,505	439,330	
Insurance programs.....		107,860	107,860	77,926
Other.....		1,625	1,625	
Unrestricted (deficit)	(559,318)	1,725,338	1,166,020	1,005,105
Total net assets	\$13,382,592	\$5,174,996	\$18,557,588	\$5,275,696

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Statement of Activities
For the Year Ended June 30, 2007
(Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government -								
Governmental activities:								
General government.....	\$ 712,936	\$ 424,639	\$ 43,601	\$ 12,835	\$ (231,861)	\$	(231,861)	
Health and mental hygiene	7,400,023	417,753	3,225,525		(3,756,745)		(3,756,745)	
Education	6,469,864	82,370	892,549		(5,494,945)		(5,494,945)	
Aid for higher education	1,299,090				(1,299,090)		(1,299,090)	
Human resources	1,647,583	37,344	1,027,341		(582,898)		(582,898)	
Public safety	1,852,861	65,101	92,295		(1,695,465)		(1,695,465)	
Transportation	2,913,259	643,447	72,597	710,163	(1,487,052)		(1,487,052)	
Judicial.....	541,713	403,697	5,079		(132,937)		(132,937)	
Labor, licensing and regulation	168,022	30,776	115,328		(21,918)		(21,918)	
Natural resources and recreation.....	166,751	36,882	21,424	3,825	(104,620)		(104,620)	
Housing and community development	229,008	17,096	194,662		(17,250)		(17,250)	
Environment.....	92,977	32,174	25,431		(35,372)		(35,372)	
Agriculture.....	59,294	25,101	7,088		(27,105)		(27,105)	
Business and economic development.....	66,405	921	2,521		(62,963)		(62,963)	
Intergovernmental grants and revenue sharing	738,973				(738,973)		(738,973)	
Interest.....	332,599				(332,599)		(332,599)	
Total governmental activities	24,691,358	2,217,301	5,725,441	726,823	(16,021,793)		(16,021,793)	
Business-type activities:								
Economic development - insurance programs	1,545	7,771			\$ 6,226		6,226	
Economic development - general loan programs	54,274	6,796			(47,478)		(47,478)	
Economic development - water quality loan programs ..	34,175	86,735		49,995	102,555		102,555	
Economic development - housing loan programs	160,226	184,297			24,071		24,071	
Unemployment insurance program	445,877	464,411	14,719		33,253		33,253	

Maryland State Lottery.....	1,094,065	1,577,311			483,246	483,246
Maryland Transportation Authority	368,170	371,468	11,276		14,574	14,574
Maryland Correctional Enterprises.....	46,238	48,022			1,784	1,784
Total business-type activities.....	2,204,570	2,746,811	25,995	49,995	618,231	618,231
Total primary government.....	\$26,895,928	\$4,964,112	\$5,751,436	\$776,818	618,231	(15,403,562)
Component units:						
Higher education	\$3,754,428	\$1,804,076	\$1,104,988	\$229,510		\$(615,854)
Maryland Prepaid College Trust	53,541	55,372				1,831
Maryland Stadium Authority	68,991	33,972	21,870	2,267		(10,882)
Other component units	109,015	105,149	7,017	3,127		6,278
Total component units	\$3,985,975	\$1,998,569	\$1,133,875	\$234,904		(618,627)
General revenues:						
Income taxes					7,333,979	7,333,979
Sales and use taxes					3,448,766	3,448,766
Motor vehicle taxes					1,982,329	1,982,329
Other taxes					2,243,581	2,243,581
Grants and contributions not restricted to specific programs						1,051,471
Unrestricted investment earnings					350,249	30,658
Additions to permanent endowments.....						178,337
Transfers					349,556	(349,556)
Total general revenues, additions to permanent endowments, and transfers					15,708,460	(318,898)
Changes in net assets					(313,333)	299,333
Net assets - beginning of the year					13,695,925	4,875,663
Net assets - end of the year					\$13,382,592	\$5,174,996
					\$18,557,588	\$5,275,696

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Balance Sheet
Governmental Funds
June 30, 2007
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 1,857,515		\$ 38,447	\$ 1,895,962
Cash and cash equivalents – restricted		\$ 34,735	22	34,757
Cash with fiscal agent – restricted.....			6,425	6,425
Investments	4,729,089			4,729,089
Investments – restricted.....			2,381	2,381
Prepaid items.....	354,894	64,347		419,241
Taxes receivable, net	717,298	115,183	15,791	848,272
Intergovernmental receivables.....	817,720	198,735		1,016,455
Other accounts receivable.....	404,179	68,068	789	473,036
Due from other funds	49,555	215,336	362,090	626,981
Inventories	24,233	67,557		91,790
Loans and notes receivable, net.....	2,533	6,730	5,879	15,142
Loans and notes receivable – restricted.....			5,825	5,825
Collateral for lent securities	4,042,752			4,042,752
Total assets	\$12,999,768	\$770,691	\$437,649	\$14,208,108
Liabilities:				
Salaries payable.....	\$ 110,174	\$ 14,003		\$ 124,177
Vouchers payable.....	331,562	36,991	\$ 78,930	447,483
Accounts payable and accrued liabilities	1,226,758	265,983	20,821	1,513,562
Due to other funds.....	1,006,948	13,438		1,020,386
Due to component units	932,239			932,239
Accounts payable to political subdivisions	1,653,749	79,312	3,822	1,736,883
Deferred revenue	335,974	33,927	495	370,396
Matured bonds and interest coupons payable			323	323
Accrued self-insurance costs.....	100,645			100,645
Collateral obligations for lent securities	4,042,752			4,042,752
Total liabilities	9,740,801	443,654	104,391	10,288,846
Fund balances:				
Reserved for:				
State reserve fund.	1,589,756			1,589,756
Encumbrances.....	390,418	25,170	342,371	757,959
Prepaid items and inventories.....	379,127	131,904		511,031
Loans and notes receivable	2,266	4,819	10,862	17,947
Construction projects.....		2,517		2,517
Restricted revenues	12,144			12,144
Debt service			6,153	6,153
Unreserved:				
Designated	195,050			195,050
Undesignated, (deficit) reported in:				
General fund	690,206			690,206
Special revenue fund.....		162,627		162,627
Non-major debt service funds			57,132	57,132
Non-major capital projects fund.....			(83,260)	(83,260)
Total fund balances	3,258,967	327,037	333,258	3,919,262
Total liabilities and fund balances.....	\$12,999,768	\$770,691	\$437,649	\$14,208,108

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Reconciliation of the Governmental Funds' Fund Balance to the Statement of Net Assets' Net Assets Balance

June 30, 2007

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Net Assets (pages 22-23) differ from the amounts for the governmental funds' fund balances because of:

Amount in governmental funds, fund balance (page 26)	\$3,919,262
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	18,196,187
Taxes and other receivables that will not be available to pay for current-period expenditures and, therefore, are deferred in the funds.....	321,054
Accrued interest payable on bonds and capital leases are not liquidated with current financial resources in the governmental funds.....	(120,188)
Other assets not available to pay for current period expenditures.....	37,711
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
General Obligation Bonds.....	(5,191,461)
Deferred charges to be amortized over the life of the debt	59,012
Premiums to be amortized over the life of the debt.....	(300,152)
Transportation Bonds	(1,111,050)
Deferred charges to be amortized over the life of the debt	7,096
Premiums to be amortized over the life of the debt.....	(71,425)
Accrued self-insurance costs.....	(204,003)
Accrued annual leave.....	(277,923)
Pension liabilities.....	(646,040)
Other long term liabilities	(406,866)
Obligation under capital leases	(535,482)
Obligations under capital leases with component units	(293,140)
Net assets of governmental activities (page 23)	<u>\$13,382,592</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds, For the Year Ended June 30, 2007

(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ 7,325,181			\$ 7,325,181
Sales and use taxes	3,447,896			3,447,896
Motor vehicle taxes and fees		\$1,982,329		1,982,329
Other taxes	1,687,223		\$ 556,358	2,243,581
Other licenses and fees	782,712			782,712
Charges for services	642,801	407,386		1,050,187
Revenues pledged as security for bonds.....		70,563		70,563
Interest and other investment income.....	292,262	10,519	12,340	315,121
Federal revenue.....	5,624,412	782,760		6,407,172
Other	206,076	34,278	317	240,671
Total revenues.....	20,008,563	3,287,835	569,015	23,865,413
Expenditures:				
Current:				
General government.....	715,235			715,235
Health and mental hygiene.....	7,252,117			7,252,117
Education.....	6,097,851		286,944	6,384,795
Aid to higher education.....	1,053,890		245,200	1,299,090
Human resource.....	1,643,078			1,643,078
Public safety	1,790,595			1,790,595
Transportation.....		1,219,507		1,219,507
Judicial	527,618			527,618
Labor, licensing and regulation	164,255			164,255
Natural resources and recreation.....	177,553			177,553
Housing and community development.....	228,105			228,105
Environment.....	92,460			92,460
Agriculture	101,252			101,252
Business and economic development.....	65,774			65,774
Intergovernmental grants and revenue sharing.....	503,014	851,616	235,960	1,590,590
Capital outlays.....		1,369,805	67,936	1,437,741
Debt service:				
Principal retirement.....			473,985	473,985
Interest.....			298,007	298,007
Bond issuance costs	441		1,282	1,723
Total expenditures	20,413,238	3,440,928	1,609,314	25,463,480
Deficiency of revenues under expenditures	(404,675)	(153,093)	(1,040,299)	(1,598,067)
Other financing sources (uses):				
Capital leases.....	50,575	6,285		56,860
Other long-term liabilities.....		2,411		2,411
Bonds issued		100,000	679,378	779,378
Bond premium.....		150	51,665	51,815
Transfers in.....	613,148	213,246	311,027	1,137,421
Transfers out.....	(532,635)	(225,149)	(30,081)	(787,865)
Total other sources of financial resources	131,088	96,943	1,011,989	1,240,020
Net changes in fund balances	(273,587)	(56,150)	(28,310)	(358,047)
Fund balances, beginning of the year.....	3,532,554	383,187	361,568	4,277,309
Fund balances, end of the year.....	\$ 3,258,967	\$ 327,037	\$ 333,258	\$ 3,919,262

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Reconciliation of the Statement of the Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2007

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Activities (pages 24-25) are different from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because of the following:

Net change in fund balances - total governmental funds (page 28)		\$(358,047)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Capital outlays	\$1,608,764	
Depreciation expense.....	(919,745)	689,019
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
Net loss on disposals and trade-ins	(21,336)	(21,336)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Deferred revenues for taxes are recognized, net of revenue already recognized in the prior year	9,668	
Deferred revenues for other revenues are recognized, net of revenue already recognized in the prior year	98,115	107,783
The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long term debt and related items.		
Debt issued, General Obligation Bonds.....	(728,685)	
Debt issued, Transportation Bonds.....	(102,508)	
Capital lease financing.....	(56,860)	
Other long-term financing	(1,581)	
Premiums, discounts and issuance costs.....	32,513	
Principal repayments:		
General Obligation Bonds.....	405,695	
Transportation Bonds	68,290	
Capital leases.....	55,845	
Other long-term financing	14,870	(312,421)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Compensated absences	(10,999)	
Self-insurance.....	(11)	
Net pension obligation	(3,933)	
Accrued interest.....	(209,247)	
Other long term liabilities	(194,141)	(418,331)
Change in net assets of governmental activities (page 25)		\$(313,333)

The accompanying notes to the financial statements are an integral part of this financial statement.



STATE OF MARYLAND

Enterprise Fund
Financial Statements

Major Funds

Economic Development Loan Programs

This fund includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.

Unemployment Insurance Program

This fund reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment assessments collected from employers, Federal revenue received and remittance of benefits to the unemployed.

Maryland State Lottery Agency

This fund accounts for the operation of the State Lottery.

Maryland Transportation Authority

This fund accounts for the activity of the Maryland Transportation Authority, which is responsible for the operation and maintenance of toll roads, bridges and tunnels in the State.

Non-major Funds

Other Enterprise Funds

Individual non-major enterprise funds are presented in the combining section following the footnotes.

STATE OF MARYLAND
Statement of Fund Net Assets
Enterprise Funds
June 30, 2007
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Assets-						
Current assets:						
Cash and cash equivalents.....	\$ 4		\$ 1,951	\$ 191,037	\$ 10	\$ 193,002
Investments	188,666			57,867		246,533
Other accounts receivable	10,909	\$ 106,458	29,023	30,898	6,948	184,236
Due from other funds.....	270,488	1,515	60,843	627	121,266	454,739
Inventories.....			547	3,014	8,827	12,388
Loans and notes receivable, net.....	59,280				125	59,405
Investment in direct financing leases.....				43,055		43,055
Other assets			223		162	385
Current restricted assets:						
Cash and cash equivalents.....	684,626			263,392		948,018
Cash on deposit with U.S. Treasury .		1,080,990				1,080,990
Investments	401,383		37,124	169,174		607,681
Loans and notes receivable, net	55,636					55,636
Other accounts receivable	30,606					30,606
Total current assets.....	1,701,598	1,188,963	129,711	759,064	137,338	3,916,674
Non-current assets:						
Investments	72,614				1,046	73,660
Due from other funds.....				9,030		9,030
Loans and notes receivable, net.....	1,002,153				448	1,002,601
Investment in direct financing leases.....				417,444		417,444
Other assets				23,890		23,890
Restricted non-current assets:						
Investments	546,959		144,695			691,654
Deferred charges	14,764					14,764
Loans and notes receivable, net	1,889,075					1,889,075
Other accounts receivable	388					388
Capital assets, net of accumulated depreciation:						
Land				253,238		253,238
Structures and improvements.....				23,370	498	23,868
Equipment	69		1,465	4,379	5,181	11,094
Infrastructure.....				1,576,902	78	1,576,980
Total non-current assets	3,526,022		146,160	2,308,253	7,251	5,987,686
Total assets	5,227,620	1,188,963	275,871	3,067,317	144,589	9,904,360

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Liabilities-						
Current liabilities:						
Accounts payable and accrued liabilities	65,991	34,939	39,488	99,678	2,067	242,163
Due to other funds	1,746		44,028	24,590		70,364
Accrued insurance on loan losses	476				6,174	6,650
Other liabilities.....	8,777		37,657	1,213	1,174	48,821
Unearned revenue.....	31		5,797	13,647	1,354	20,829
Revenue bonds payable - current	383,945			46,422		430,367
Total current liabilities	460,966	34,939	126,970	185,550	10,769	819,194
Non-current liabilities:						
Other liabilities.....	30,010		134,729	33,546	1,869	200,154
Revenue bonds payable.....	2,701,168			1,008,848		3,710,016
Total non-current liabilities.....	2,731,178		134,729	1,042,394	1,869	3,910,170
Total liabilities	3,192,144	34,939	261,699	1,227,944	12,638	4,729,364
Net Assets:						
Invested in capital assets, net of related debt.....	69		341	1,607,724	5,757	1,613,891
Restricted for:						
Debt service.....				60,294		60,294
Capital improvements.....				78,459		78,459
Unemployment compensation benefits		1,154,024				1,154,024
Loan programs.....	433,505					433,505
Insurance programs.....					107,860	107,860
Other.....				1,625		1,625
Unrestricted.....	1,601,902		13,831	91,271	18,334	1,725,338
Total net assets	\$2,035,476	\$1,154,024	\$ 14,172	\$1,839,373	\$131,951	\$5,174,996

The accompanying notes to the financial statements are an integral part of this financial statement.



STATE OF MARYLAND

**Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended June 30, 2007**

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Operating revenues:						
Lottery ticket sales			\$1,577,311			\$1,577,311
Charges for services and sales	\$ 74,278	\$ 415,525		\$ 337,324	\$ 49,788	876,915
Loan and grant recoveries	3,254					3,254
Unrestricted interest on loan income	25,894				562	26,456
Restricted interest on loan income	91,798					91,798
Other	5,962			11,276	19	17,257
Total operating revenues	201,186	415,525	1,577,311	348,600	50,369	2,592,991
Operating expenses:						
Prizes and claims			927,010			927,010
Commissions and bonuses			112,188			112,188
Cost of sales and services			20,040		38,096	58,136
Operation and maintenance of facilities	5,032			256,873		261,905
General and administrative	28,189		34,135	12,836	9,751	84,911
Benefit payments		445,877				445,877
Capital grant distributions	23,097					23,097
Depreciation and amortization	4,081		657	62,526	1,252	68,516
Provision for (reduction in)						
insurance on loan losses	12,957				(1,316)	11,641
Other	52,492					52,492
Total operating expenses	125,848	445,877	1,094,030	332,235	47,783	2,045,773
Operating income (loss)	75,338	(30,352)	483,281	16,365	2,586	547,218
Non-operating revenues (expenses):						
Unrestricted interest and other						
investment income	20,822		(1,967)	11,803		30,658
Restricted interest and other						
investment income	76,642	48,886		34,144	5,472	165,144
Interest expense	(119,458)		(35)	(35,935)		(155,428)
Federal grants and distributions		14,719				14,719
Other	(3,369)				(48)	(3,417)
Total non-operating revenues						
(expenses)	(25,363)	63,605	(2,002)	10,012	5,424	51,676
Income before contributions						
and transfers	49,975	33,253	481,279	26,377	8,010	598,894
Capital contributions	49,995					49,995
Transfers in	78,249			83,000	44	161,293
Transfers out	(6,609)	(10,121)	(494,119)			(510,849)
Changes in net assets	171,610	23,132	(12,840)	109,377	8,054	299,333
Total net assets - beginning of the year	1,863,866	1,130,892	27,012	1,729,996	123,897	4,875,663
Total net assets - end of the year	\$2,035,476	\$1,154,024	\$ 14,172	\$1,839,373	\$131,951	\$5,174,996

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Statement of Cash Flows

Enterprise Funds

For the Year Ended June 30, 2007

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Cash flows from operating activities:						
Receipts from customers.....	\$ 403,528	\$ 431,132	\$1,574,807	\$ 425,115	\$ 49,401	\$ 2,883,983
Payments to suppliers	(1,824)		(36,184)	(305,477)	(32,727)	(376,212)
Payments to employees	(7,396)		(12,205)	(71,133)	(14,580)	(105,314)
Other receipts (payments)	(1,025,427)	(437,552)	(111,408)	38,009	(6,159)	(1,542,537)
Lottery prize payments			(922,225)			(922,225)
Net cash from operating activities	(631,119)	(6,420)	492,785	86,514	(4,065)	(62,305)
Cash flows from noncapital financing activities:						
Proceeds from the sale of revenue bonds.....	1,505,042					1,505,042
Payment on revenue bonds.....	(538,165)			(24,080)		(562,245)
Interest payments	(107,655)			(8,692)		(116,347)
Transfers in.....	81,543			83,000		164,543
Transfers out.....	(13,483)	(10,121)	(491,808)			(515,412)
Capital contributions.....	49,995					49,995
Grants		14,719				14,719
Lottery installment payments			(69,630)			(69,630)
Other	(14,482)	(58)	26,568			12,028
Net cash from non-capital financing activities....	962,795	4,540	(534,870)	50,228		482,693
Cash flows from capital and related financing activities:						
Proceeds from notes payable and revenue bonds.....				342,307		342,307
Principal paid on notes payable and revenue bonds.....				(15,910)		(15,910)
Interest payments			(35)	(25,312)		(25,347)
Acquisition of capital assets.....			(283)	(355,599)	(1,407)	(357,289)
Payments of capital lease obligations.....			(423)			(423)
Net cash from capital and related financing activities			(741)	(54,514)	(1,407)	(56,662)
Cash flows from investing activities:						
Purchase of investments.....	(1,791,475)		(25,852)	(2,432,991)		(4,250,318)
Proceeds from maturity and sale of investments	1,834,586		68,913	2,527,997		4,431,496
Interest on investments.....	57,616	48,886		25,450	5,472	137,424
Acquisition of assets leased in direct financing leases				(56,594)		(56,594)
Receipts from investment in direct financing leases				72,376		72,376
Net cash from investing activities.....	100,727	48,886	43,061	136,238	5,472	334,384
Net changes in cash and cash equivalents	432,403	47,006	235	218,466		698,110
Balance - beginning of the year	252,227	1,033,984	1,716	235,963	10	1,523,900
Balance - end of the year	\$ 684,630	\$1,080,990	\$ 1,951	\$ 454,429	\$ 10	\$ 2,222,010

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash from operating activities:						
Operating income (loss)	\$ 75,338	\$(30,352)	\$483,281	\$16,365	\$2,586	\$ 547,218
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	4,081		657	62,526	1,252	68,516
Effect of changes in non-cash operating assets and liabilities:						
Other accounts receivable	(389)	15,599	(5,827)	(13,413)	(227)	(4,257)
Due from other funds	(23,771)	(240)	1,082	117	(6,693)	(29,505)
Inventories			2,650	(1,346)	(1,047)	257
Loans and notes receivable	(680,009)				17	(679,992)
Other assets	2,270		(191)		770	2,849
Accounts payable and accrued liabilities	(10,621)	8,573	7,705	30,383	452	36,492
Due to other funds	1,746			(9,821)		(8,075)
Accrued insurance on loan losses	334				(1,327)	(993)
Other liabilities	(101)		105	(143)	302	163
Unearned revenue	3		3,323	1,846	(150)	5,022
Total adjustments	(706,457)	23,932	9,504	70,149	(6,651)	(609,523)
Net cash from operating activities	\$ (631,119)	\$ (6,420)	\$492,785	\$86,514	\$(4,065)	\$ (62,305)
Noncash transactions (amounts expressed in thousands):						
Unrealized loss on investments			\$ (1,966)			
Additions to leased capital assets			292	\$18,755		

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2007

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Agency Funds
Assets:			
Cash and cash equivalents.....	\$ 1,535,680		\$ 91,316
Investments:			
U.S. Treasury and agency obligations	893,446	\$1,242,025	
Repurchase agreements		302,710	
Bonds	1,813,353		
Corporate equity securities.....	9,204,769		
Commercial paper		186,560	
Bankers acceptances		56,263	
Mortgage related securities.....	2,761,599		
Mutual funds	22,929,822	153,531	
Guaranteed investment contracts	600,938		
Real estate.....	988,839		
Annuity contracts	526,285		
Investment held by borrowers under securities lent with cash collateral.....	1,842,401		
Total investments	41,561,452	1,941,089	
Taxes receivable, net			219,901
Accounts receivable from state treasury			1,653,278
Other receivables	730,979	3,417	2,455
Collateral for lent securities	1,897,331		
Total assets	45,725,442	1,944,506	1,966,950
Liabilities:			
Accounts payable and accrued liabilities	1,869,423	19,113	164,930
Accounts payable to political subdivision.....			1,802,020
Collateral obligation for lent securities.....	1,897,331		
Total liabilities	3,766,754	19,113	1,966,950
Net assets:			
Held in trust for:			
Pension benefits (A schedule of funding progress for each of the plans may be found on pages 87 & 88).....	39,573,916		
Deferred compensation benefits.....	2,384,772		
Local Government Investment Pool participants.....		1,925,393	
Total net assets	\$ 41,958,688	\$1,925,393	\$ —

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended June 30, 2007

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund
Additions:		
Contributions:		
Employers.....	\$ 397,275	
Members	476,475	\$4,355,773
Sponsors	475,365	
Total contributions	1,349,115	4,355,773
Investment earnings:		
Net increase in fair value of investments	5,599,317	
Interest	493,070	94,612
Dividends	211,887	
Real estate operating net earnings	30,806	
Net change in annuity reserves.....	3,594	
Total investment earnings	6,338,674	94,612
Less: investment expense.....	174,978	562
Net investment earnings	6,163,696	94,050
Total additions	7,512,811	4,449,823
Deductions:		
Benefit payments	2,127,371	
Distributions to participants.....		94,049
Redemptions (unit transactions at \$1.00 per unit).....		4,164,250
Refunds	16,021	
Administrative expenses.....	27,899	
Total deductions	2,171,291	4,258,299
Changes in net assets.....	5,341,520	191,524
Net assets – beginning of the year.....	36,617,168	1,733,869
Net assets – end of the year	\$41,958,688	\$1,925,393

The accompanying notes to the financial statements are an integral part of this financial statement.



STATE OF MARYLAND

*Component Unit
Financial Statements*

Major Component Units

Higher Education

Higher education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and certain of their foundations. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single component unit. The financial information for certain foundations affiliated with the universities and colleges has not been included in this fund in accordance with GASB Statement No. 14 as amended by GASB Statement No. 39.

Maryland Prepaid College Trust

The Maryland Prepaid College Trust is a program of the College Savings Plans of Maryland and directed by the Board to provide a means for payment of the cost of tuition and mandatory fees in advance of enrollment at eligible institutions of higher education.

Maryland Stadium Authority

The Maryland Stadium Authority was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State.

Non-major Component Units

Other Component Units

Non-major component units are presented individually in the combining section following the footnotes.

STATE OF MARYLAND

Combining Statement of Net Assets

Component Units

June 30, 2007

(Expressed in Thousands)

	Higher Education	Maryland Prepaid College Trust	Stadium Authority	Other Component Units	Total
Assets:					
Cash and cash equivalents.....	\$ 51,752	\$ 6,137	\$ 304	\$ 13,009	\$ 71,202
Investments	534	542,103		16,913	559,550
Endowment investments	253,311				253,311
Foundation investments	905,691				905,691
Tuition contracts receivable	74,913	171,875			246,788
Other accounts receivable	358,663	1,749	8,855	14,720	383,987
Due from primary government.....	885,322	248	4,273	42,396	932,239
Inventories.....	10,305				10,305
Prepaid items.....	6,317				6,317
Deferred charges.....	1,719		3,861		5,580
Loans and notes receivable, net.....	73,879		4,238	174	78,291
Investments in direct financing leases.....	957		269,573	8,692	279,222
Other assets	13,508		1	5,760	19,269
Restricted assets:					
Cash and cash equivalents.....	120,892		75		120,967
Investments	11,259		13,517	11,582	36,358
Other.....	26				26
Capital assets, net of accumulated depreciation:					
Land	132,911			6,173	139,084
Art and historical treasures.....	396				396
Structures and improvements.....	2,793,914		211,573	18,001	3,023,488
Infrastructure.....	127,797		4,104	1,087	132,988
Equipment	344,025	34		10,070	354,129
Construction in progress.....	361,706			5,118	366,824
Total assets	6,529,797	722,146	520,374	153,695	7,926,012
Liabilities:					
Salaries payable.....	64,912				64,912
Accounts payable and accrued liabilities	137,174	215	5,456	19,420	162,265
Unearned revenue.....	151,968	8,976	12,298	2,958	176,200
Accrued insurance on loan losses				1,920	1,920
Other liabilities.....	1,981			228	2,209
Bonds and notes payable:					
Due within one year	70,885		15,020	1,310	87,215
Due in more than one year	1,000,478		268,058	10,593	1,279,129
Other noncurrent liabilities:					
Due within one year	81,797	30,203	277	18,949	131,226
Due in more than one year	131,681	592,311	541	20,707	745,240
Total liabilities	1,640,876	631,705	301,650	76,085	2,650,316

	Higher Education	Maryland Prepaid College Trust	Stadium Authority	Other Component Units	Total
Net Assets:					
Invested in capital assets, net of related debt	2,767,537	34	203,517	33,117	3,004,205
Restricted:					
Debt service			2,484		2,484
Capital improvements and deposits			11,107	258	11,365
Nonexpendable:					
Scholarships and fellowships	229,384				229,384
Research.....	6,986				6,986
Other	373,235				373,235
Expendable:					
Debt service	4,208				4,208
Capital projects	21,929				21,929
Loans and notes receivable	77,926				77,926
Scholarships and fellowships	144,690				144,690
Research.....	109,422				109,422
Other	284,757				284,757
Unrestricted.....	868,847	90,407	1,616	44,235	1,005,105
Total net assets	\$4,888,921	\$90,441	\$218,724	\$ 77,610	\$5,275,696

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Combining Statement of Activities Component Units For the Year Ended June 30, 2007

(Expressed in Thousands)

	Higher Education	Maryland Prepaid College Trust	Stadium Authority	Other Component Units	Total
Expenses:					
General and administrative		\$ 1,696	\$ 7,169	\$ 12,508	\$ 21,373
Operation and maintenance of facilities.....	\$ 289,644		21,085	91,859	402,588
Provision for insurance on loan losses, net				(427)	(427)
Instruction.....	979,542				979,542
Research	787,534				787,534
Public service.....	127,700				127,700
Academic support.....	310,195				310,195
Student services	160,625				160,625
Institutional support.....	358,358				358,358
Scholarships and fellowships.....	79,192				79,192
Tuition benefits		51,748			51,748
Auxiliary.....	412,055				412,055
Hospitals	100,498				100,498
Interest on long-term debt.....	49,126		18,058	1,388	68,572
Depreciation and amortization	2,390	85	13,979	3,505	19,959
Foundation expenses	93,539				93,539
Other	4,030	12	8,700	182	12,924
Total expenses.....	3,754,428	53,541	68,991	109,015	3,985,975
Program revenues:					
Charges for services:					
Student tuition and fees (net of \$174,386 in allowances)	936,236				936,236
Auxiliary enterprises (net of \$21,797 in allowances)	447,344				447,344
Restricted investment earnings.....	151,615		2,247	701	154,563
Other.....	268,881	55,372	31,725	104,448	460,426
Total charges for services	1,804,076	55,372	33,972	105,149	1,998,569
Operating grants and contributions	1,104,988		21,870	7,017	1,133,875
Capital grants and contributions	229,510		2,267	3,127	234,904
Total program revenues.....	3,138,574	55,372	58,109	115,293	3,367,348
Net program revenue (expense)	(615,854)	1,831	(10,882)	6,278	(618,627)
General revenues:					
Grants and contributions not restricted to specific programs	1,051,471				1,051,471
Unrestricted investment earnings.....	102,545	72,608	232	2,952	178,337
Additions to permanent endowments.....	4,277				4,277
Total general revenues and additions to permanent endowments.....	1,158,293	72,608	232	2,952	1,234,085
Changes in net assets.....	542,439	74,439	(10,650)	9,230	615,458
Net assets – beginning of the year.....	4,346,482	16,002	229,374	68,380	4,660,238
Net assets – end of the year	\$4,888,921	\$90,441	\$218,724	\$77,610	\$ 5,275,696

The accompanying notes to the financial statements are an integral part of this financial statements.

STATE OF MARYLAND
Index for
Notes to the Financial Statements
For the Year Ended June 30, 2007

Note 1 - Summary of Significant Accounting Policies.....	46
Note 2 - Significant Accounting Policies - Assets, Liabilities and Net Assets or Equity.....	48
Note 3 - Deposits with Financial Institutions and the U.S. Treasury and Investments	52
Note 4 - Receivables.....	59
Note 5 - Deferred Revenue.....	60
Note 6 - Loans and Notes Receivable and Investment in Direct Financing Leases	60
Note 7 - Restricted Assets.....	62
Note 8 - Interfund Receivables and Payables	62
Note 9 - Interfund Transfers.....	63
Note 10 - Capital Assets	64
Note 11 - Long-Term Obligations.....	65
Note 12 - Insurance.....	73
Note 13 - Fund Equity	74
Note 14 - Segment Information	75
Note 15 - Retirement Benefits.....	76
Note 16 - Commitments.....	80
Note 17 - Contingencies	80
Note 18 - Tobacco Settlement	81
Note 19 - Landfill Closure and Postclosure Care Costs.....	81

Notes to Required Supplementary Information

Note 1 - Budgeting and Budgetary Control.....	89
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Notes to the Financial Statements

For the year ended June 30, 2007

1. Summary of Significant Accounting Policies:

A. Reporting Entity

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the State's ability to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units column of the government-wide financial statements includes the financial data of the following major component units. Individual financial statements are presented for each component unit.

Higher Education (Proprietary Fund Type) – Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and certain of their foundations. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The universities and colleges are funded through State appropriations, tuition, Federal grants, and private donations and grants. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single discretely presented component unit. Some of the financial information for foundations affiliated with the universities and colleges has not been included with the financial information of the universities and colleges in accordance with the requirements of GASB Statement No. 14 as amended by GASB Statement No. 39.

The Maryland Prepaid College Trust (Proprietary Fund Type) – The Maryland Prepaid College Trust is a program of the College Savings Plans of Maryland and directed by its Board. The Board consists of five State officials and five members of the public appointed by the Governor. The Maryland Prepaid College Trust provides a means for payment of the cost of tuition and mandatory fees in advance of enrollment at eligible institutions of higher education.

Maryland Stadium Authority (Proprietary Fund Type) — The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State. The Authority's Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and Treasurer) must approve all of the projects and bond issuances of the Authority.

The non-major component units are comprised of the following proprietary fund type entities.

The Maryland Food Center Authority (Food Center) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight members are appointed by the Governor. The Food Center was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

The Maryland Industrial Development Financing Authority (MIDFA) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. MIDFA provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

The Maryland Technology Development Corporation (Corporation) was established as a body corporate and politic and a public instrumentality of the State. The Corporation's Board of Directors consists of 15 individuals, the Secretary of the Department of Business and Economic Development and 14 members appointed by the Governor with the advice and consent of the State Senate. The Corporation was created to assist in transferring to the private sector and commercializing the results and products of scientific research and development conducted by the colleges and universities and to assist in the commercialization of technology developed in the private sector. The Corporation administers the Maryland Technology Incubator Program and the Maryland Stem Cell Research Fund.

Complete financial statements of the individual component units and the Local Government Investment Pool of the Investment Trust Fund may be requested from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

Related Organizations

The Maryland Economic Development Corporation (MEDCO), Injured Workers' Insurance Fund and the Maryland Automobile Insurance Fund are related organizations of the State. The Governor appoints a majority of the Board of Directors, but the State does not have the ability to impose its will on the organizations, and there is no financial benefit/burden relationship. As of June 30, 2007, the Economic Development Loan Programs, major enterprise funds, had transactions with MEDCO that included loans, investments and grants totaling \$30,121,000.

B. Government-wide and Fund Financial Statements

The State's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the primary government and its component units. Interfund activity has been eliminated from these statements except for certain charges for services between activities that would distort the direct costs and program revenues reported for the applicable functions. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Expenses reported for functional activities include allocated indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements as those assets are not available to liquidate current liabilities. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund (other than the agency funds), financial statements. The agency funds are reported using the accrual basis of accounting, but have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The State reports the following major governmental funds:

General Fund:

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, health and mental hygiene, education (other than higher education institutions), human resources, public safety, judicial, labor, licensing and regulation, natural resources and recreation, housing and community development, environment, agriculture, and business and economic development. Resources obtained from Federal grants and used for general fund activities, consistent with applicable legal requirements, are recorded in the general fund.

Special Revenue Fund, Maryland Department of Transportation:

Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue fund. The Maryland Department of Transportation special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation, including construction or improvement of transportation facilities and mass transit operations.

Enterprise Funds:

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The enterprise funds differ from governmental funds in that the focus is on the flow of economic resources, which, together with the maintenance of equity, is an important financial indicator.

The major enterprise funds are as follows.

1. The Economic Development Loan Programs includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.
2. The Unemployment Insurance Program reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment taxes collected from employers, Federal revenue received and remittance of benefits to the unemployed.
3. The Maryland State Lottery Agency operates the State Lottery.
4. The Maryland Transportation Authority is responsible for the operation and maintenance of toll roads, bridges and tunnels in the State.

Fiduciary Funds:

1. The Pension and Other Employee Benefits Trust Fund (Trust Fund) includes the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Fund reflects the transactions, assets, liabilities and net assets of the plans administered by the State and is accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is reported as of and for its fiscal year ended December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a), and 401(k). Amounts deferred are invested and are not subject to Federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.
2. The Investment Trust Fund reflects the transactions, assets, liabilities and net assets of the Maryland Local Government Investment Pool and is accounted for using the flow of economic resources measurement focus.
3. The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of litigants, patient and prisoner accounts, various taxes collected by the State for distribution to political subdivisions and amounts withheld from employees' payroll.

D. New Pronouncements:

In June 2004, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued. In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Both of these Statements are effective for periods beginning after December 15, 2006 (State's year ending June 30, 2008). Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for periods beginning after December 15, 2007, was issued by the GASB in November 2006. In May, 2007, GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements 25 and 27*. This Statement is generally effective for periods beginning after June 15, 2007. In addition, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in June, 2007. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The State will implement each of these pronouncements as of their effective dates. Although the assessment of the impact of GASB Statement No. 45 is not completed, an actuarial valuation as of June 30, 2006, using methods and assumptions which are subject to change, estimated an actuarial accrued liability for other postemployment benefits at implementation to be approximately \$9 billion assuming a 7.8% discount rate and to be approximately \$14.5 billion assuming a 4.3% discount rate. While the State is still in the process of determining the effect of implementing the other GASB statements, the other GASB statements to be implemented are not expected to have a material effect on the financial position of the State.

2. Significant Accounting Policies - Assets, Liabilities and Net Assets or Equity:

A. All Funds:

Deposits with Financial Institutions and Investments:

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise, fiduciary funds and component units are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis primarily in repurchase agreements, U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Certificates of deposits of Maryland financial institutions.
- Banker's acceptances.
- Money market mutual funds.
- Commercial paper.
- Maryland Local Government Investment Pool.
- Securities Lending Collateral.

In addition, bond sale proceeds may be invested in Municipal securities. A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping.

Investments are recorded at fair value and changes in fair value are recognized as revenue. Fair values are based on quotations from national security exchanges and security pricing services, or by the respective fund managers for securities which are not actively traded. Investments maturing within 90 days of purchase are reported in the financial statements as cash and cash equivalents.

The State Retirement and Pension System of Maryland (System), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, is permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the System. The law further provides that no more than 25% of the assets that are invested in common stocks may be invested in nondividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the System. The System is authorized by Section 21-116 of the State Personnel and Pensions Article to establish and maintain the investment policy manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to, common stock, preferred stock, convertible securities, warrants and similar rights of U.S. and non-U.S. companies; private equity - direct/partnership/funds; real estate investment trusts; commingled real estate funds; directly owned real estate; fixed income obligations of the U.S. government and its states and local subdivisions, non-U.S. governments and their states and local subdivisions, U.S. and non-U.S. companies, and supra-national organizations; futures and options; foreign exchange forward and future contracts and options; equity index futures; and equity options.

Investments of the System and the Maryland Transit Administration (MTA) Pension Plan are stated at fair value. The investments of the MTA Pension Plan are held and invested on their behalf by the System. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of real estate investments which are based on estimated current values and independent appraisals. Fair value for private equity investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers.

State employees are offered participation in deferred compensation plans created in accordance with the Internal Revenue Code, Sections 401(a), 401(k), 403(b), and 457. The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans is responsible for the implementation, maintenance and administration of the Plans. The Board has appointed a private company as the Plans' administrator. Assets of the Plans are held in trusts for the exclusive benefit of participating employees and their beneficiaries. Investments of the Plans are stated at fair value. Fair value of the investments is valued at cost plus interest credited for fixed earnings investment contract pools and at fair value based on published quotations at each December 31, or net asset value as provided by the investment custodian, for variable earnings investments.

Retirement Costs:

Substantially all State employees participate in one of several State retirement systems, (See footnote 15). The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement costs have been provided on the accrual basis, based upon actuarial valuations, except that retirement expenditures for governmental funds represent amounts contributed by the State for the fiscal year.

Accrued Self-Insurance Costs:

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary funds and discretely presented component units on an accrual basis and the modified accrual basis for the governmental funds. The long-term accrued self-insurance costs of the governmental funds, which are not expected to be funded with current resources, are reported in the government-wide financial statements.

Annual Leave Costs:

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the government-wide financial statements. Liabilities for accumulated earned but unused annual leave applicable to proprietary funds and component units are reported in the respective funds.

Capital Assets:

Capital assets, which include property, plant, art and historical treasures, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure acquired prior to June 30, 1980, is not reported. Capital assets are defined by the government as assets with an initial, individual cost of more than \$50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	5-50
Building improvements	5-50
Vehicles	3-25
Office equipment	3-10
Computer equipment	3-10
Computer software	5-10
Infrastructure	10-50

Long-term Obligations:

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Resources:

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

Debt Refinancing:

The gain or loss associated with debt refinanced is deferred and amortized to interest expense over the remaining life of the old debt or the life of the new debt whichever is shorter.

Net Assets:

Net assets are divided into three categories. Net assets invested in capital assets net of related debt is the capital assets less accumulated depreciation and outstanding principal of the related debt. Restricted net assets reflect restrictions on assets imposed by parties outside the State. Unrestricted net assets are total net assets of the State less net assets invested in capital assets net of related debt and restricted net assets. Unrestricted net assets are comprised mainly of cash, investments, loans, and receivables.

B. Governmental Funds:

Inventories and Prepaid Items:

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements under the consumption method.

Grants:

Revenues from Federal reimbursement type grants are recognized when the related expenditures are incurred and the revenues are both measurable and available. The government considers all grant revenues to be available if they are collected within 60 days of the current fiscal period. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

Income Taxes:

The State accrues the net income tax receivable or records a deferred revenue based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

Sales and Use Taxes:

The State accrues June sales taxes that are not remitted at year-end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

Property Taxes:

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real property subject to taxation, due and payable each July 1 and December 1 (lien dates), based on assessed values as of the previous January 1, established by the Maryland State Department of Assessments and Taxation at 100% of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate in fiscal year 2007 was 11.2 ¢ per \$100 of assessed value. Unpaid property taxes are considered in arrears on October 1 and January 1, respectively, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Property taxes are accrued to the extent they are collected within 60 days of year end.

Escheat Property:

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund. An asset is recognized in the period when the legal claim to the assets arises or when the resources are received, whichever occurs first, and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

Intergovernmental Expenditures:

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions are recorded as intergovernmental expenditures if such payments do not require mandatory use for specific functions. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

Capital Assets:

Expenditures for capital assets are reported as capital outlays in the governmental funds.

Compensated Absences:

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

C. Enterprise Funds, Fiduciary Funds and Component Units:

Basis of Accounting:

The accounts of the enterprise funds, fiduciary funds, and component units are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For both the government-wide business-type activities and the enterprise fund financial statements, the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

Enterprise funds and component units distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents:

The enterprise funds consider all highly liquid investments that mature within 90 days of purchase to be cash and cash equivalents for reporting on the statement of cash flows.

Grants:

Revenues from Federal reimbursement type grants are recorded when the related expenses are incurred.

Capital Assets:

Capital assets are stated at cost. Depreciation of the cost of capital assets is provided on the straight-line basis over estimated useful lives of 5 to 50 years for depreciable real property and building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

Lottery Revenues, Prizes and Related Transfers:

Revenues and prize obligations of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditures. The

excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to fund the State's capital lease payments to the Maryland Stadium Authority.

Provisions for Insurance and Loan Losses:

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization. Reductions required to the reserve for loan or insured loan reserves are recorded as negative expenses.

Inventories:

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

3. Deposits with Financial Institutions and the U.S. Treasury and Investments:

Cash and cash equivalents for the governmental funds, enterprise funds, fiduciary funds and component units totaled \$1,937,144,000, \$2,222,010,000, \$1,626,996,000, and \$172,308,000, respectively, as of June 30, 2007. Included as cash and cash equivalents for financial statement presentation were certain short-term investments which are included in 3.B. because they mature within 90 days of purchase. These cash and cash equivalents totaled \$1,937,144,000, \$1,137,490,000, \$1,382,564,000, and \$126,522,000 for the governmental funds, enterprise funds, fiduciary funds, and component units, respectively, as of June 30, 2007.

As of June 30, 2007, non-negotiable certificates of deposits totaling \$5,674,000, \$4,601,000, and \$483,000 were included in the investments of the governmental funds, enterprise funds, and component units, respectively.

A. Cash Deposits

As of June 30, 2007, the carrying value for the bank deposits of the governmental funds, enterprise funds, fiduciary funds, and component units were \$5,674,000, \$1,089,120,000, \$244,433,000 and \$46,269,000, respectively. The bank balances were \$5,674,000, \$1,088,873,000, \$244,433,000, and \$70,091,000, respectively. The balances for the component units do not include the balances for certain higher education foundations in the amount of \$19,861,000, and they are not included in the GASB Statement No. 40, Deposit and Investment Risk Disclosures, disclosure below. The foundations are not required to and do not follow governmental accounting under the GASB's standards.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. State law permits the Treasurer to deposit in a financial institution in the State, unexpended or surplus money in which the Treasurer has custody if (a) the deposit is interest bearing; (b) the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance; and (c) a custodian holds the collateral.

The Economic Development Loan Programs, Maryland Transportation Authority, higher education component unit, Maryland Stadium Authority and certain other component units do not have a deposit policy for custodial credit risk. As of June 30, 2007, \$694,000, \$306,000, \$5,688,000, \$75,000, and \$1,900,000, respectively, of their bank balances were exposed to custodial credit risk as uninsured and uncollateralized.

B. Investments:

The State defines investment risks as follows:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

1. Investments-Governmental Funds:

The State Treasurer's Office is authorized to make investments as stated in footnote 2.A.

Investments are stated at fair value that is based on quoted market prices. The investments and maturities as of June 30, 2007, for the governmental funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1-3	More than 3
U.S. Treasury bills and notes (a)	\$ 27,205	\$ 27,205		
U.S. agencies (b)	4,523,655	934,898	\$1,811,467 (c)	\$1,777,290 (d)
Repurchase agreements.....	1,711,267	1,711,267		
Guaranteed investment contracts.....	6,102			6,102
Total investments.....	6,268,229	2,673,370	1,811,467	1,783,392
Collateral for lent securities	4,042,752	4,042,752		
Total investments and collateral for lent securities.....	\$10,310,981	\$6,716,122	\$1,811,467	\$1,783,392

(a) Investments held by broker dealers under securities lending program are \$25,908,000.

(b) Investments held by broker dealers under securities lending program are \$3,661,778,000.

(c) Bonds in the amount of \$979,384,000 mature July 2008 to June 2010, but are callable July 2007 to April 2008.

(d) Bonds in the amount of \$1,223,803,000 mature July 2010 to June 2012, but are callable July 2007 to October 2009.

In addition to the investments scheduled above, as of June 30, 2007, the governmental funds had investments of \$219,776,000 in money market mutual funds and \$174,935,000 in the Local Government Investment Pool. These investments are operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. Their fair values are based on a share price of \$1.00 per share.

Interest Rate Risk. The State Treasurer's Office's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase. In addition, investments of the non-major governmental funds are subject to the provisions of the 2002, 2005, and 2007 Qualified Zone Academy Bond covenants requiring that annual sinking fund deposits be made to redeem the bonds in 2016, 2020, and 2022, respectively. These funds, totaling \$6,102,000, are invested in guaranteed investment contracts.

Credit Risk. State law requires that the governmental funds' repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments are made directly in U.S. agency obligations. These agency obligations are rated Aaa by Moody's and AAA by Standard and Poor's. State law also requires that money market mutual funds have the highest possible rating from at least one nationally recognized securities rating organization. The money market mutual funds are rated Aaa/AAA. The Local Government Investment Pool is rated AAAM by Standard & Poor's. The guaranteed investment contracts are collateralized by U.S. agency obligations. They are not required to be and are not rated.

Concentration of Credit Risk. The State Treasurer's Office's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. More than 5 percent of the governmental funds' investments are in the Federal National Mortgage Association, the Federal Home Loan Bank, and the Federal Home Loan Mortgage Corporation. These investments are 32.9%, 30.6% and 23.9% of the governmental funds' total investments, respectively.

2. Investments — Enterprise Funds:

The enterprise funds' bond indentures and investment policies, with the exception of the Economic Development Loan Programs, authorize the investment of assets related to the indentures and other funds in obligations in which the State Treasurer may invest. The Economic Development Loan Programs are authorized to invest in obligations of the U.S. Treasury, U.S. government agencies, obligations of U.S. political subdivisions, bankers' acceptances, commercial paper, repurchase agreements, guaranteed investment contracts, corporate debt securities and mutual funds.

Investments of the enterprise funds are stated at fair value, which is based on quoted market prices.

The investments and maturities as of June 30, 2007, for the enterprise funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less than 1	1 - 5	6-10	11-15	More than 15
U.S. Treasury obligations (a).....	\$ 491,189	\$ 14,509		\$ 5,497	\$22,964	\$448,219
U.S. Government agency obligations (b)	1,155,395	1,126,576	\$18,537		3,815	6,467
Repurchase agreements.....	52,126	476			31,505	20,145
Commercial paper.....	65,288	65,288				
Guaranteed investment contracts.....	18,899			18,899		
Total	\$1,782,897	\$1,206,849	\$18,537	\$24,396	\$58,284	\$474,831

(a) Investments held by broker dealers under securities lending program are \$1,154,000.

(b) Investments held by broker dealers under securities lending program are \$165,442,000.

In addition to the investments scheduled above, as of June 30, 2007, the enterprise funds had investments of \$726,642,000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The funds' fair values are based on a share price of \$1.00 per share. The enterprise funds' investments also include the fair value of corporate equity securities, \$6,360,000, and direct equity investments, \$54,699,000.

The State Lottery Agency, a major enterprise fund, invests in U.S. Treasury obligations and annuity contracts that provide for guaranteed payouts to jackpot prize winners and, therefore, have no interest rate risk to the Lottery. As of June 30, 2007, the fair value of these investments was \$181,366,000 and \$452,000, respectively. Of these investments, U.S. Treasury obligations held by broker dealers under the securities lending program were \$177,940,000.

Interest Rate Risk. The enterprise funds' policy for managing their exposure to fair value loss arising from increasing interest rates is to manage investment maturities so that they precede or coincide with the expected need for funds.

Credit Risk. The investment policies of the enterprise funds require that repurchase agreements are collateralized by U.S. Treasury and agency obligations. The policies also require that money market mutual funds contain only U.S. Treasuries or agencies or repurchase agreements secured by these or that they receive the highest possible rating from at least one nationally recognized securities rating organization. According to the indenture and investment policy of the Economic Development Loan Programs, investments must be rated no lower than the rating on the Loan Programs' bonds or F1/P1 for the issuer's short-term accounts or securities. The rating on the Loan Programs' bonds as of June 30, 2007, was Aa by Moody's and AA by Fitch. The guaranteed investment contracts are not required to be and are not rated.

As of June 30, 2007, the enterprise funds had the following investments and quality ratings (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Rating Organization	Percentage of Total Investments
U.S. Government agency obligations.....	\$1,155,395	AAA/Aaa	S&P/Moody's	41.9%
Money market mutual funds	726,642	AAAm/Aaa	S&P/Moody's	26.4
Repurchase agreements-underlying securities.....	52,126	AAA/Aaa	S&P/Moody's	1.9
Commercial paper.....	65,288	A-1/P-1	S&P/Moody's	2.4
Guaranteed investment contracts.....	18,899	Not rated		.7
Total	\$2,018,350			73.3%

Concentration of Credit Risk. The enterprise funds place no limit on the amount they may invest in any one issuer. More than 5% of the enterprise funds' investments are in obligations of the Federal Agricultural Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation. These investments are 14.9%, 10.2%, 8.9%, and 5.1%, respectively, of the enterprise funds' total investments.

3. Investments - Fiduciary Funds:

The Pension Trust Funds are authorized to make investments as stated in footnote 2.A.

The Maryland Local Government Investment Pool is authorized by Article 95, Section 22G, of the Annotated Code of Maryland to invest in any instrument in which the State Treasurer may invest. Investments of the Pool are stated at fair value. Securities are valued daily on an amortized cost basis which approximates market value. Money market funds are valued at the closing net asset value per share on the day of valuation.

The investments and maturities as of June 30, 2007, for the fiduciary funds of the primary government are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury notes and bonds	\$ 1,024,906	\$ 32,072	\$ 319,646	\$ 309,841	\$ 363,347
U.S. Treasury strips	12,399				12,399
U.S. Government agency obligations.....	1,511,302	1,255,610	126,642	71,887	57,163
Repurchase agreements.....	302,764	302,764			
Bankers' acceptances.....	56,263	56,263			
Commercial paper.....	1,573,461	1,573,461			
Guaranteed investment contracts.....	600,938			600,938	
Corporate bonds	1,211,782	75,803	683,999	300,634	151,346
International bonds	62,170	15,647	17,135	10,470	18,918
Other government bonds	320,198	17,445	126,152	69,671	106,930
Mortgage-backed securities.....	2,761,598	1,026	8,162	376,773	2,375,637
Asset-backed securities.....	353,686		52,113	11,623	289,950
Bond mutual funds	6,970,182	815,899	74	6,033,655	120,554
Swaps	(8,352)	(5,724)	(21,472)	(3,896)	22,740
Total investments.....	16,753,297	4,140,266	1,312,451	7,781,596	3,518,984
Collateral for lent securities	1,897,331	1,897,331			
Total investments and collateral for lent securities	\$18,650,628	\$6,037,597	\$1,312,451	\$7,781,596	\$3,518,984

In addition to the investments scheduled above, as of June 30, 2007, the fiduciary funds had investments of \$153,531,000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The fair value of the funds is based on a share price of \$1.00 per share. The fiduciary funds' investments also include the fair value of stock mutual funds, \$15,959,642,000, corporate equity securities, \$10,499,820,000, private equity, \$384,666,000, real estate, \$988,839,000, annuity contracts, \$141,619,000, and insurance contracts, \$3,691,000.

Interest Rate Risk. The State Retirement and Pension System (System) may invest in derivatives as permitted by guidelines established by the Board of Trustees. Compliance with these guidelines is monitored by the System's staff. Derivatives are used to improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. At times, the System invests in swaps, collateralized mortgage obligations, mortgage pass-through securities, interest-only securities, and principal-only securities. These securities are subject to changes in value due to changes in interest rates. The values of mortgage-backed securities are generally based on the future cash flows associated with the underlying pools of assets. Therefore, they are sensitive to prepayments by mortgagors which may result from a decline in interest rates. The System held \$661,107,000 in collateralized mortgage obligations, \$2,100,491,000 of mortgage pass-through securities and \$(8,352,000) of swaps as of June 30, 2007. Substantially all derivatives are recorded at fair value in the Statement of Net Assets.

The Deferred Compensation Plans invest in annuity contracts and insurance contracts that provide for guaranteed payouts to participants and, therefore, have no interest rate risk to the Plans. As of June 30, 2007, the fair value of these investments was \$141,619,000 and \$3,691,000, respectively.

The State Treasurer's Office manages the Local Government Investment Pool. The State Treasurer's investment policies state that no direct investment by the Pool may have a maturity date of more than 13 months after its acquisition.

Credit Risk. The investment policy of the System requires each fixed income investment manager to maintain a minimum average credit quality of "A" for the total account. The guaranteed investment contracts and the bond mutual funds of the Plans are not required to be and are not rated. The Local Government Investment Pool may invest in instruments rated only Tier 1 by at least one nationally recognized securities rating organization. As of June 30, 2007, the fiduciary funds' investments were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Percentage of Total Investments
U.S. Government agency obligations.....	\$1,474,524	AAA	3.3%
U.S. Government agency obligations.....	5,073	AA	.0
U.S. Government agency obligations.....	423	BBB	.0
U.S. Government agency obligations.....	9,723	BB	.0
U.S. Government agency obligations.....	423	B	.0
U.S. Government agency obligations.....	21,137	Unrated	.1
Repurchase agreements-underlying securities.....	302,710	AAA	.7
Repurchase agreements-underlying securities.....	54	Unrated	.0
Money market mutual funds	153,531	AAA	.3
Bankers' acceptances.....	56,263	A1/P1	.1
Commercial paper.....	293,875	AAA	.7
Commercial paper.....	1,279,585	A	2.9
Guaranteed investment contracts.....	600,938	Unrated	1.3
Corporate bonds	79,446	AAA	.2
Corporate bonds	271,543	AA	.6
Corporate bonds	177,386	A	.4
Corporate bonds	3,363	BAA	.0
Corporate bonds	89,114	B	.2
Corporate bonds	152,585	BB	.3
Corporate bonds	394,704	BBB	.9
Corporate bonds	12,190	CAA	.0
Corporate bonds	15,553	CCC	.0
Corporate bonds	15,132	Unrated	.0
International bonds.....	16,881	AAA	.0
International bonds.....	6,999	A	.0
International bonds.....	3,705	BBB	.0
International bonds.....	34,585	Unrated	.1
Other government bonds	19,219	AAA	.0
Other government bonds	61,491	AA	.1
Other government bonds	44,294	A	.1
Other government bonds	9,840	BAA	.0
Other government bonds	820	B	.0
Other government bonds	29,931	BB	.1
Other government bonds	126,292	BBB	.3
Other government bonds	28,311	Unrated	.1
Collateralized mortgage obligations.....	607,692	AAA	1.4
Collateralized mortgage obligations.....	3,287	AA	.0
Collateralized mortgage obligations.....	9,039	A	.0
Collateralized mortgage obligations.....	7,396	BAA	.0
Collateralized mortgage obligations.....	11,505	BBB	.0
Collateralized mortgage obligations.....	22,188	Not rated	.1
Convertible bonds.....	384	B	.0
Convertible bonds.....	383	CAA	.0
Mortgage pass-through securities.....	1,239,500	AAA	2.8
Mortgage pass-through securities.....	860,992	Not rated	1.9
Asset-backed securities-other	259,943	AAA	.6
Asset-backed securities-other	24,152	AA	.1
Asset-backed securities-other	18,012	A	.1
Asset-backed securities-other	409	BAA	.0
Asset-backed securities-other	1,228	B	.0
Asset-backed securities-other	11,462	BB	.0
Asset-backed securities-other	12,281	BBB	.0
Asset-backed securities-other	26,199	Not rated	.1
Bond mutual funds	6,970,180	Not rated	15.5
Total	\$15,877,875		35.4%

Foreign Currency Risk. The majority of the System's foreign currency-denominated investments are in equities, which the System's asset allocation policy limits to 15%.

The System's exposure to foreign currency risk as of June 30, 2007, is as follows (amounts expressed in thousands).

Currency	Equity	Fixed Income	Cash	Alternative Investments	Mutual Funds	Total
Australian dollar.....	\$ 116,699	\$ (231)	\$ 193			\$ 116,661
Brazilian real	16,239	4,139	107			20,485
Canadian dollar.....	94,819	(48)	973			95,744
Danish krone	39,031		123			39,154
Egyptian pound.....		12,107				12,107
Euro currency.....	1,343,700	2,718	5,061	\$50,916		1,402,395
Hong Kong dollar	273,474		135			273,609
Indonesian rupiah	3,406					3,406
Israeli shekel	4,797		35			4,832
Japanese yen	599,799	10,320	4,405			614,524
Malaysian ringgit.....	5,690					5,690
Mexican peso	15,804	143	29			15,976
New Taiwan dollar	28,232		2,521			30,753
New Turkish lira	31,864		285			32,149
New Zealand dollar.....			307			307
Norwegian krone.....	76,905		36			76,941
Polish zloty.....		6,907	1			6,908
Pound sterling	636,066	36,863	16,847	21,243		711,019
Singapore dollar	83,911		279			84,190
South African rand.....	36,578		5			36,583
South Korean won.....	96,779		817			97,596
Swedish krona	59,444		959			60,403
Swiss franc.....	228,517		151			228,668
Not applicable.....					\$4,098,287	4,098,287
Other currencies.....			3			3
Total.....	\$3,791,754	\$72,918	\$33,272	\$72,159	\$4,098,287	\$8,068,390

4. Investments - Component Units:

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments and are invested in accordance with the investment policies adopted by the Board of Trustees. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, corporate debt and equity securities, asset-backed securities and mutual funds that invest in government securities. The investments of the higher education foundations are not included in the GASB Statement No. 40 disclosures below because the foundations are not required to and do not follow the GASB.

In July 2005, one of the institutions, the University System of Maryland, transferred title to its endowment investments to its foundation in exchange for an equivalent proportionate interest in the long-term investment portfolio managed by the foundation. The agreement is for a term of five years, with renewable two-year extensions at the option of the institution, unless notice of intent to terminate the arrangement is provided prior to the expiration of the term. If the agreement is terminated, funds invested with individual investment managers that have commitments from the foundation to maintain investments for certain minimum time periods may not be returned to the institution until those constraints have been satisfied. For reporting purposes, the foundation's investments have been reduced by the amount of the institution's investments with the foundation.

The Maryland Stadium Authority is restricted by the trust indenture for each bond issue as to the investments which can be made. Authorized investments under the indentures include U.S. Treasury and agency obligations, municipal obligations, banker's acceptances, and repurchase agreements.

Investments of the component units are stated at fair value, which is based on quoted market prices.

The investments and maturities as of June 30, 2007, for the component units, excluding the investments of the higher education foundations in the amount of \$905,691,000, are as follows (amounts expressed in thousands).

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-5	6-10	11-15	More than 15
U.S. Treasury obligations.....	\$ 22,960	\$ 132	\$14,869	\$ 348	\$1,842	\$ 5,769
U.S. Government agency obligations.....	47,487	4,910	10,539	311	3,139	28,588
Repurchase agreements.....	5,674	5,674				
Corporate debt securities.....	96,491	2,706	14,717	6,953	753	71,362
Municipal bonds	7,537	25	1,984	2,256	802	2,470
Total	\$180,149	\$13,447	\$42,109	\$9,868	\$6,536	\$108,189

In addition to the investments scheduled above, as of June 30, 2007, the component units had investments of \$172,022,000 in money market mutual funds operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. The funds' fair values are based on a share price of \$1.00 per share. In addition, as of June 30, 2007, the component units' investments include the fair value of stock mutual funds, \$210,577,000, corporate equity securities, \$162,241,000, real estate \$4,908,000, and the share of assets invested with the foundation, \$245,362,000.

Interest Rate Risk. The policy of the higher education institutions for managing their exposure to fair value loss arising from increasing interest rates is to comply with their investment policy, which sets maximum maturities for various fixed income securities.

Credit Risk. The policies of the higher education institutions for reducing their exposure to credit risk are to require minimum quality ratings for fixed income securities. Money market mutual funds are not required to be and are not rated.

As of June 30, 2007, the component units had the following investments and quality ratings (amounts expressed in thousands).

Investment Type	Fair Value	Rating	Rating Organization	Percentage of Total Investments
U.S. agencies	\$ 47,487	AAA/Aaa	S&P & Moody's	4.8%
Money market mutual funds	4,510	Aaa	Moody's	.5
Money market mutual funds	167,512	Not rated		17.2
Repurchase agreements - underlying securities.....	5,674	Not rated		.6
Corporate debt securities.....	32,249	AAA/Aaa	S&P & Moody's	3.3
Corporate debt securities.....	5,812	AA/Aa	S&P & Moody's	.6
Corporate debt securities.....	11,084	A	S&P & Moody's	1.1
Corporate debt securities.....	18,081	Less than A	Moody's	1.9
Corporate debt securities.....	96	BBB	S&P & Moody's	.0
Corporate debt securities.....	29,169	Not rated		3.0
Municipal bonds	7,537	Aaa	Moody's	.8
Total	\$ 329,211			33.8%

In addition to the Maryland Prepaid College Trust, the College Savings Plans of Maryland consists of the Maryland College Investment Plan, a fiduciary component unit. As of June 30, 2007, the Plan has \$1,432,961,000 of investments held in trust for individuals and organizations.

C. Securities Lending Transactions:

1. Governmental and Enterprise Fund Types:

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. Government securities to broker-dealers and other entities (borrowers). The State Treasurer's Office controls the program and authorizes all transactions. These transactions may involve certain investments held in the State treasury for the benefit of State agencies. The State's custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. Additionally, under the terms of the lending agreement, the lending agent indemnifies the State against any credit loss arising from investment of the collateral. The collateral will be returned for the same securities in the future. Cash collateral is initially pledged at greater than the market value of the securities lent and additional cash collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent.

Securities on loan at year-end are owned by the general fund, other governmental funds, the Maryland State Lottery Agency, and the Economic Development Loan Programs and are included in the preceding Investments Schedule in 3.B. At year-end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2007, the fair value of the loaned securities and the related collateral were as follows (amounts expressed in thousands).

	Fair Value		Percent Collateralized
	Lent Securities	Collateral Received	
Securities-General fund	\$3,686,694	\$3,694,684	100.2%
Securities-Other governmental funds.....	992	994	100.2
Securities-Lottery Agency.....	177,940	180,334	101.4
Securities-Economic Development Loan Programs.....	166,596	166,740	100.1
Total.....	\$4,032,222	\$4,042,752	100.3%

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. Investments made with cash received as collateral are included in the preceding Investments-Governmental Funds Schedule in 3.B.1.

The State's custodial bank is obligated to indemnify the State against liability for any suits, actions, or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 2007.

2. Fiduciary Funds:

The Pension Trust Funds (Funds) participate in a securities lending program as permitted by the investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers in return for collateral of greater value. The preceding Investments – Fiduciary Funds Schedule in 3.B.3 includes (1) securities lent at year-end for cash collateral; (2) securities lent for securities collateral; and (3) investments purchased with cash collateral.

Borrowing brokers must transfer in the form of cash or other securities, collateral valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked to market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the lent securities. The Funds have not experienced any loss due to credit or interest rate risk on securities lending activity since inception of the program. As of June 30, 2007, the Funds had no credit risk exposure to borrowers because the fair value of collateral held for securities lent exceeded the fair value of the related securities, as follows (amounts expressed in thousands).

Securities Lent	Fair Value	Cash Collateral Received or Non-Cash Collateral Value	Percent Collateralized
Lent for cash collateral:			
Fixed income securities.....	\$ 547,349	\$ 557,782	101.9%
Domestic equities.....	708,464	728,277	102.8
International equities.....	586,588	611,272	104.2
Subtotal.....	1,842,401	1,897,331	
Lent for noncash collateral:			
Fixed income securities.....	26,827	27,362	102.0
Domestic equities.....	127,808	131,156	102.6
International equities.....	35,407	37,281	105.3
Total securities lent.....	\$2,032,443	\$2,093,130	103.0%

Although the average term of the Funds' security loans is one week, each loan can be terminated at will by either the Funds or the borrower. Cash collateral is invested in one of the lending agent's short-term investment pools, which as of June 30, 2007, had a weighted average maturity of 48 days and an average expected maturity of 168 days. Because the relationship between the maturities of the investment pools and the Fund's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the Funds cannot match maturities. The Funds cannot pledge or sell collateral securities received unless and until a borrower defaults.

4. Receivables:

Taxes receivable, as of June 30, 2007, consist of the following (amounts expressed in thousands).

	Major Governmental Funds		Non-Major Governmental Funds	Total Governmental Funds
	General	Special Revenue		
Income taxes	\$363,902			\$363,902
Sales and use taxes	352,830			352,830
Transportation taxes, principally motor vehicle fuel and excise		\$115,183		115,183
Other taxes, principally alcohol and property	23,978		\$15,791	39,769
Less: Allowance for uncollectibles.....	(23,412)			(23,412)
Taxes receivable, net	\$717,298	\$115,183	\$15,791	\$848,272

Tax revenues are reported net of uncollectible amounts. Total uncollectible amounts related to tax revenues of the current period are \$3,265,000.

Other accounts receivable in the governmental funds of \$473,036,000, including \$82,498,000 due in excess of one year, consist of various miscellaneous receivables for transportation costs, collection of bills owed to the State's collection unit, Medicaid reimbursements, and child support and public assistance overpayments and surcharges.

Other accounts receivable for the enterprise funds of \$215,230,000, primarily consist of \$106,458,000 due to the Maryland Unemployment Trust Fund from employers and for benefit overpayments, and \$29,023,000, due to the Maryland State Lottery Agency for lottery ticket sale proceeds.

Other accounts receivable in the agency funds of \$1,653,278,000 represent cash pooled in the State treasury that is being held pending distribution to local governments.

5. Deferred Revenue:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, enterprise funds and component units also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of June 30, 2007, the various components of deferred revenue reported in the governmental funds and enterprise funds were as follows (amounts expressed in thousands).

	Unavailable	Unearned	Total
Tax receivables for revenues not considered available to liquidate liabilities of the current period (general fund).....	\$132,163		\$132,163
Other receivables for revenues not considered available to liquidate liabilities of the current period (general fund).....	188,395		188,395
Other receivables for revenues not considered available to liquidate liabilities of the current period (special revenue fund)	28,191		28,191
Other receivables for revenues not considered available to liquidate liabilities of the current period (other governmental funds)	495		495
Receipts that have been received, but not earned (general fund)		\$15,416	15,416
Revenue in connection with resources that have been received, but not earned (special revenue fund)		5,736	5,736
Revenue in connection with resources that have been received, but not earned (enterprise funds)		20,829	20,829
Total deferred/unearned revenue for governmental funds and enterprise funds.....	\$349,244	\$41,981	\$391,225

6. Loans and Notes Receivable and Investment in Direct Financing Leases:

A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 2007, consist of the following (amounts expressed in thousands).

	Primary Government				Component Units		
	General	Special Revenue Department of Transportation	Non-major Governmental Funds	Enterprise	Higher Education	Stadium Authority	Other
Notes receivable:							
Political subdivisions:							
Water quality projects.....			\$ 4,223	\$ 765,338			
Construction		\$6,730					
Other			30				
Hospitals and nursing homes.....			1,213				
Public schools.....			413				
Permanent mortgage loans				2,446,381			
Student and health profession loans.....					\$78,298		
Shore erosion loans.....			5,825				
Other	\$2,533				5,944	\$4,238	\$174
Total.....	2,533	6,730	11,704	3,211,719	84,242	4,238	174
Less: Allowance for possible loan losses.				205,002	10,363		
Loans and notes receivable, net.....	2,533	6,730	11,704	3,006,717	73,879	4,238	174
Due within one year	205	2,970	2,042	115,041	11,796	325	40
Due in more than one year.....	\$2,328	\$3,760	\$ 9,662	\$2,891,676	\$62,083	\$3,913	\$134

Certain notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 3.8% to 8.8% and mature within 27 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater and drinking water projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds' Federal assistance program. The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes. Student and health profession loans are made pursuant to student loan programs funded through the U.S. Government.

B. Investment in Direct Financing Leases:

Enterprise Funds:

As of June 30, 2007, the Maryland Transportation Authority (Authority) has direct financing leases with the State's Department of Transportation and Washington Metropolitan Area Transit Authority (WMATA). The present value of the direct financing leases as of June 30, 2007, was \$460,499,000. As of June 30, 2007, the Authority held \$40,400,000 to be spent to complete assets under these direct financing leases. Lease payments receivable, including unearned interest for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2008.....	\$ 43,053
2009.....	47,065
2010.....	47,111
2011.....	47,159
2012.....	47,285
2013-2017	201,092
2018-2022	167,408
2023-2027	158,137
2028-2032	57,493
2033-2037	10,234
Total	826,037
Less: Unearned interest income	325,138
Net lease payments	500,899
Restricted investments related to unexpended bond proceeds	40,400
Net investments in direct financing leases	\$ 460,499

Component Units:

As of June 30, 2007, the Maryland Stadium Authority (Authority) has direct financing leases with the State. The present value of the direct financing leases as of June 30, 2007, is \$269,573,000. As of June 30, 2007, the Authority held \$13,517,000 to be spent to complete assets under these direct financing leases. Lease payments receivable, including unearned interest for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2008.....	\$ 32,108
2009.....	31,539
2010.....	31,603
2011.....	31,691
2012.....	31,861
2013-2017	144,681
2018-2022	95,524
2023-2027	31,955
Total	430,962
Less: Unearned interest income	147,872
Net lease payments	283,090
Restricted investments related to unexpended bond proceeds	13,517
Net investments in direct financing leases	\$ 269,573

7. Restricted Assets:

Certain assets of the governmental activities, business-type activities and component units are classified as restricted assets on the Statement of Net Assets. The purpose and amount of restricted assets as of June 30, 2007, are as follows (amounts expressed in thousands).

Amount	Purpose
Governmental Activities:	
\$ 34,735	Represents money restricted for completion of transportation construction projects maintained in a trust account per Certificates of Participation agreements
2,403	Represents cash and cash equivalents and investments restricted for debt service payments according to bond agreements
323	Represents funds transmitted to bond paying agents and restricted for payments for coupons and bonds that have not been presented
6,102	Represents sinking fund deposits restricted for redemption of term bonds
5,825	Consists of Shore Erosion Control Program loans, the repayments of which are restricted by statute for future loans
<u>\$ 49,388</u>	
Business-type Activities:	
\$3,498,270	Assets of the Community Development Administration and the State Funded Loan Programs are restricted for various mortgage loans for low-income housing and local governments' public facilities
125,167	The purpose of the restricted assets is to secure the revenue bonds of the Maryland Water Quality Administration made for waste water treatment systems
1,080,990	Restricted assets represent deposits with the U.S. Treasury to pay unemployment compensation benefits in accordance with Federal statute
181,819	This cash is held in separate annuity contracts and coupon bonds in the Maryland State Lottery Agency for winning lottery ticket payouts
432,566	Cash and investments have been restricted in accordance with revenue bond debt covenants of the Maryland Transportation Authority for completion of capital projects, facility operations, and debt service
<u>\$5,318,812</u>	
Component Units:	
\$ 132,177	Restricted assets of higher education include funds held by the trustee for future construction projects, cash restricted for endowment purposes, and assets associated with student loans and loan repayments
13,592	Restricted assets of Maryland Stadium Authority include cash and cash equivalents and investments that relate to revenue bond indentures
11,582	Restricted assets include investments that relate to revenue bond indentures and to restricted project advances for the provision of water supply and wastewater treatment by the Maryland Environmental Service
<u>\$ 157,351</u>	

8. Interfund Receivables and Payables:

Interfund balances, as of June 30, 2007, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$ 3,781 (a)
	Enterprise Funds -	
	Economic Development Loan Programs	1,746 (b)
	Maryland State Lottery Agency	<u>44,028 (a)</u>
		<u>\$ 49,555</u>
Special Revenue Fund	General Fund	\$ 190,746
	Enterprise Funds -	
	Maryland Transportation Authority	<u>24,590 (c)</u>
		<u>\$ 215,336</u>
Non-major Governmental Funds	General Fund	<u>\$ 362,090</u>
Enterprise Funds –		
Economic Development Loan Programs	General Fund	\$ 270,488
Unemployment Insurance Program	General Fund	1,515
Maryland State Lottery Agency	General Fund	60,843
Maryland Transportation Authority	Special Revenue Fund	<u>9,657 (d)</u>
Non-major Enterprise Funds	General Fund	<u>121,266</u>
		<u>\$ 463,769</u>

The receivable and payable transactions between the Primary Government and Component Units, as of June 30, 2007, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
Component Units -		
Higher Education Fund	General Fund	\$885,322
Maryland Prepaid College Trust	General Fund	248
Maryland Stadium Authority	General Fund	4,273
Non-major Component Units	General Fund	42,396
		<u>\$932,239</u>

- (a) The amounts represent monies collected by the special revenue fund and the Maryland State Lottery in June, 2007, and paid to the general fund in July, 2007.
- (b) The amount represents short term advances from the general fund for principal and interest payments.
- (c) The Maryland Transportation Authority collects fees for the special revenue fund. The money will be used to build and maintain special revenue fund infrastructure, structures and other improvements.
- (d) The Maryland Transportation Authority lent funds to the Special Revenue Fund for a construction project at the Seagirt Marine Terminal. The balance outstanding as of June 30, 2007, was \$9,657,000. Payments will continue for 33 years after completion of the project.

All remaining amounts which are due from the general fund represent pooled cash belonging to the other funds on deposit with the State Treasurer. All interfund balances except for (d), above, are expected to be repaid by June 30, 2008.

9. Interfund Transfers:

Interfund transfers, for the year ended June 30, 2007, consist of the following (amounts expressed in thousands).

Transfers In	Transfers Out	Amount
General Fund	Special Revenue Fund	\$ 80,540
	Non-major Governmental Funds	21,759
	Enterprise Funds -	
	Maryland State Lottery Agency	494,119
	Economic Development Loan Programs	6,609
	Unemployment Insurance Program	10,121
		<u>\$613,148</u>
Special Revenue Fund	General Fund	<u>\$213,246</u>
Non-major Governmental Funds	General Fund	\$196,418
	Special Revenue Fund	114,609
		<u>\$311,027</u>
Enterprise Funds -		
Loan Programs	General Fund	\$ 69,927
	Non-major Governmental Funds	8,322
Maryland Transportation Authority	General Fund	53,000
	Special Revenue Fund	30,000
Non-major Enterprise Funds	General Fund	44
		<u>\$161,293</u>

Transfers are primarily used to 1) transfer revenues from the fund required by statute or budget to collect the revenue to the fund required by statute or budget to expend them, 2) transfer receipts restricted to debt service from the funds collecting the receipts to the non-major governmental funds as debt service payments become due, and 3) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In addition, the non-major governmental funds transferred \$10,497,000 of interest earned on bonds, \$415,000 for expenses for bond sales, \$863,000 return of funds for rescinded pay-as-you-go capital projects, \$849,000 of Shore Erosion loan repayments and \$9,135,000 for program open space park service operations to the general fund. The general fund transferred \$219,000 for redemptions and interest on state bonds, \$105,272,000 for program open space capital projects, \$8,453,000 for improvements at Maryland Veteran cemeteries, and \$82,474,000 for other capital projects, primarily public school construction, to the non-major governmental funds. The special revenue fund transferred \$114,609,000 for redemptions and interest on transportation bonds.

The Maryland State Lottery transferred revenue in excess of funds allocated to prize awards, operating expenses and capital expenditure payments in the amount of \$494,119,000, to the general fund. The general fund transferred \$69,927,000 to support the operations of Enterprise Funds – Loan Programs and the Enterprise Funds – Loan Programs transferred \$6,609,000 of unused funds to the general fund. The general

fund and special revenue fund also transferred \$53,000,000 and \$30,000,000 to the Enterprise Fund – Maryland Transportation Authority for design, planning and land purchases for the Inter-County Connector Project. Expenditures for capital projects of \$8,322,000 were transferred to Enterprise Funds – Loan Programs.

During the year, the general fund and other governmental funds had expenditures of \$1,053,890,000, and \$245,200,000, respectively, that were for funds provided to supplement revenues and construction costs, respectively, of the higher education component units. The general fund also had net expenditures of \$17,200,000 that were for funds provided to supplement revenues of the Maryland Stadium Authority.

10. Capital Assets:

A. Capital Assets, Primary Government:

Capital assets activity by asset classification net of accumulated depreciation, for the year ended June 30, 2007, was as follows (amounts expressed in thousands).

Governmental activities:

Classification	Balance June 30, 2006	Additions	Deletions	Transfers In (Out)	Balance June 30, 2007
Capital assets, not being depreciated,					
Land and improvements.....	\$ 2,657,515	\$ 104,915	\$ 3,145	\$ 15,388	\$ 2,774,673
Art and historical treasures	27,120	1,425	750		27,795
Construction in progress	2,680,356	898,288	23,337	(803,704)	2,751,603
Total capital assets, not being depreciated	<u>5,364,991</u>	<u>1,004,628</u>	<u>27,232</u>	<u>(788,316)</u>	<u>5,554,071</u>
Capital assets, being depreciated,					
Structures and improvements	5,206,592	122,125	42,464	82,812	5,369,065
Equipment	2,328,505	89,538	113,807	20,933	2,325,169
Infrastructure	14,530,860	392,473	5,326	684,571	15,602,578
Total capital assets, being depreciated	<u>22,065,957</u>	<u>604,136</u>	<u>161,597</u>	<u>788,316</u>	<u>23,296,812</u>
Less accumulated depreciation for,					
Structures and improvements	1,837,981	149,444	1,306		1,986,119
Equipment	1,468,711	145,420	90,731		1,523,400
Infrastructure	6,535,188	624,881	17		7,160,052
Total accumulated depreciation	<u>9,841,880</u>	<u>919,745</u>	<u>92,054</u>		<u>10,669,571</u>
Total capital assets, net	<u>\$17,589,068</u>	<u>\$ 689,019</u>	<u>\$ 96,775</u>	<u>\$ –</u>	<u>\$18,181,312</u>

Business-type activities:

Classification	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated,				
Land and improvements.....	\$ 120,847	<u>\$132,391</u>		<u>\$ 253,238</u>
Capital assets, being depreciated,				
Structures and improvements	50,844	109		50,953
Equipment	34,900	1,926	\$1,010	35,816
Infrastructure	2,403,367	225,996		2,629,363
Total capital assets, being depreciated	<u>2,489,111</u>	<u>228,031</u>	<u>1,010</u>	<u>2,716,132</u>
Less accumulated depreciation for,				
Structures and improvements	24,131	2,954		27,085
Equipment	23,803	1,500	581	24,722
Infrastructure	992,745	59,638		1,052,383
Total accumulated depreciation	<u>1,040,679</u>	<u>64,092</u>	<u>581</u>	<u>1,104,190</u>
Total capital assets, net	<u>\$1,569,279</u>	<u>\$296,330</u>	<u>\$ 429</u>	<u>\$1,865,180</u>

B. Depreciation Expense, Primary Government:

The depreciation expense for the year ended June 30, 2007, for the primary government was charged as follows (amounts expressed in thousands).

Governmental activities:

Function	Amount
General government	\$ 31,990
Education	7,730
Business and economic development	2
Human resources	13,141
Health and mental hygiene	8,439
Environment	487
Public safety	40,766
Housing and community development	985
Natural resources and recreation	15,569
Transportation	788,422
Agriculture	9,108
Labor, licensing and regulation	485
Judicial	2,621
Total depreciation expense – governmental activities	\$919,745

Business-type activities:

Function	Amount
State Lottery	\$ 658
Transportation Authority	62,526
Maryland Correctional Enterprises	882
Economic Development Loan Programs	26
Total depreciation expense – business type activities	\$64,092

11. Long-Term Obligations:

A. Governmental Activities:

Changes in governmental activities' long-term debt, for the year ended June 30, 2007, are as follows (amounts expressed in thousands).

	Balance June 30, 2006	Balance Additions	Reductions	June 30, 2007	Amounts Due Within One Year
Bonds and Notes Payable:					
General obligation bonds	\$4,868,472	\$ 679,378	\$ 405,696	\$5,142,154	\$428,310
Transportation bonds	1,079,340	100,000	68,290	1,111,050	68,990
Deferred amounts:					
Issuance premiums	412,055	51,815	42,986	420,884	
On refunding	(68,540)		(11,292)	(57,248)	
Total bonds and notes payable	6,291,327	831,193	505,680	6,616,840	497,300
Other Liabilities:					
Compensated absences	264,954	176,119	163,150	277,923	161,188
Self insurance costs	289,720	824,381	809,453	304,648	112,999
Escheat property	55,628	34,706	46,397	43,937	28,100
Net pension obligation	436,793	209,247		646,040	
Obligations under capital leases	519,592	54,383	38,493	535,482	46,923
Obligations under capital leases with component units	293,140	2,477	17,352	278,265	16,555
Other long-term liabilities	404,320	1,580	14,871	391,029	13,225
Total other liabilities	2,264,147	1,302,893	1,089,716	2,477,324	378,990
Total long-term liabilities- governmental activities	\$8,555,474	\$2,134,086	\$1,595,396	\$9,094,164	\$876,290

General Obligation Bonds -

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, facilities for institutions of higher education and the construction of public schools in political subdivisions. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, authorizes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the Governor, the Comptroller and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts. Bonds are issued and accounted for on a "cash flow" basis rather than a "project" basis and are not sold to specifically fund an enabling act. General obligation bonds are subject to arbitrage regulations. However, there are no major outstanding liabilities in connection with these regulations as of June 30, 2007. Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the date of issue. Property taxes, debt service fund loan repayments and general fund and capital projects fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 2007, the State issued \$679,378,000 of general obligations at a premium of \$49,307,000 with related issuance costs of \$1,723,000.

Refunded bonds of \$448,890,000 maturing in fiscal years 2010-2016 and callable in fiscal years 2008-2011 were considered defeased as of June 30, 2007. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

General obligation bonds issued and outstanding, as of June 30, 2007, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Annual Principal Installments	Principal Issued	Principal Outstanding
8/14/97	2001-2013	4.8-5.0 %	\$ 19,860-20,855	\$ 250,000	\$ 40,715
3/5/98	2001-2013	4.5-5.0	19,860-20,855	250,000	40,715
7/22/98	2002-2014	5.0-5.3	18,915-20,855	250,000	59,630
3/11/99	2002-2014	4.0-4.5	17,085-20,295	225,000	93,275
7/29/99	2003-2015	4.3-5.3	9,090-10,345	125,000	38,835
8/3/00	2004-2016	5.1-5.8	13,620-16,745	200,000	75,705
3/8/01	2004-2016	4.0-5.5	13,635-20,535	200,000	151,925
7/26/01	2005-2017	5.0-5.5	13,070-20,285	200,000	164,405
11/21/01	2016	0 (b)	18,098	18,098	18,098
3/21/02(a)	2003-2017	4.0-5.5	13,300-31,050	309,935	179,965
8/15/02(a)	2003-2018	3.0-5.5	16,000-83,855	515,830	331,745
3/6/03(a)	2006-2018	5.0-5.3	34,540-57,480	586,120	486,290
8/5/03	2007-2019	5.0	29,900-50,815	500,000	470,840
8/10/04	2008-2020	5.0	22,400-40,820	400,000	400,000
10/21/04 (a)	2005-2016	5.0	18,495-108,620	574,655	526,360
11/30/04	2020	0 (b)	9,043	9,043	9,043
3/17/05 (a)	2006-2020	3.4-5.3	20,745-105,235	656,185	625,230
8/11/05	2009-2021	4.3-5.0	28,215-43,820	450,000	450,000
3/23/06	2009-2021	4.0-5.0	20,060-27,955	300,000	300,000
8/10/06	2010-2022	4.3-5.0	20,330-34,870	350,000	350,000
12/20/06	2022	0 (b)	4,378	4,378	4,378
3/15/07	2010-2022	5.0	18,520-31,975	325,000	325,000
				\$ 6,699,244	\$5,142,154

(a) Includes refunding debt

(b) Qualified Zone Academy Bonds are non-interest bearing.

General obligation bonds authorized, but unissued, as of June 30, 2007, total \$1,911,587,000.

As of June 30, 2007, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2008	\$ 428,310	\$ 254,016
2009	464,725	231,545
2010	482,290	207,983
2011	471,085	184,173
2012	446,545	160,186
2013-2017	1,869,838	485,609
2018-2022	979,361	94,989
Total	\$5,142,154	\$1,618,501

Subsequent to June 30, 2007, on August 16, 2007, general obligation bonds aggregating \$375,000,000 were issued for capital improvements. The interest rate on the new issue is 5.0%, and the bonds mature serially through 2023.

Transportation Bonds -

Transportation bonds outstanding as of June 30, 2007, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds – 2.0% to 5.8%, due serially through 2022 in annual installments of original principal ranging from \$13,000 to \$112,000	\$ 991,800
Consolidated Transportation Bonds, Refunding – 4.0% to 5.0%, due serially through 2014 in annual installments of original principal ranging from \$8,040 to \$26,890	119,250
Total.....	\$1,111,050

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport, rail, or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year, that does not exceed \$2,000,000,000 through June 30, 2007, and thereafter. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2007, was \$1,248,750,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2007, was \$1,111,050,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are available to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (1) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (2) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

The 2006 session of the General Assembly established a maximum outstanding principal amount of \$762,200,000 as of June 30, 2007, for all nontraditional debt of the Department. Nontraditional debt outstanding is defined as any debt instrument that is not a Consolidated Transportation Bond or GARVEE bond (tax-exempt debt backed by annual federal appropriations for federal-aid transportation projects). This debt includes certificates of participation, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by the Maryland Economic Development Corporation or any other third party on behalf of the Department. As of June 30, 2007, the Department's nontraditional debt outstanding was \$765,617,000 and is reported as obligations under capital leases and other long-term liabilities and includes funds held by the bond trustee under these agreements.

Since 1993, County Transportation Revenue Bonds have been issued for the benefit of, and become debt of, the participating subdivisions and do not constitute debt of the Department. Debt service on these bonds is payable from the subdivisions' shares of highway user revenues. As of June 30, 2007, the principal balance outstanding for County Transportation Revenue Bonds totaled \$58,400,000. These bonds do not constitute a debt or pledge of the faith and credit of the Department or the State and, accordingly, have not been reported in the accompanying financial statements.

Arbitrage regulations are applicable to the transportation bonds payable. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2007.

During fiscal year 2007, the Department issued \$100,000,000 of Consolidated Transportation Bonds at a premium of \$2,508,000.

Refunded bonds of \$46,500,000 were considered defeased as of June 30, 2007. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2007, Department bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30	Consolidated Transportation Bonds	
	Principal	Interest
2008	\$ 68,990	\$ 52,400
2009	76,210	49,539
2010	77,595	46,149
2011	78,670	42,703
2012	90,545	39,005
2013-2017	494,190	127,662
2018-2022	224,850	20,178
Total	\$1,111,050	\$377,636

Obligations Under Capital Leases -

Obligations under capital leases as of June 30, 2007, bore interest at annual rates ranging from 2.3% to 5.9%. Capital lease obligations with third parties in fiscal year 2007 increased by \$54,383,000 for master equipment and building leases entered into by the general fund and leases for various transportation related projects entered into by the Maryland Department of Transportation. The capital leases with component units include the general fund's capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games, and with other non-major component units. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2007 (amounts expressed in thousands).

Years Ending June 30,	Capital Lease Obligations with	
	Third Parties	Component Units
2008	\$ 71,653	\$ 34,231
2009	70,360	33,670
2010	61,593	33,721
2011	51,308	34,023
2012	50,584	33,146
2013-2017	175,243	148,388
2018-2022	145,674	95,524
2023-2027	109,022	31,955
2028-2032	58,951	
Total future minimum payments.....	794,388	444,658
Less: Amount representing interest.....	258,798	150,174
Less: Restricted cash and investments.....	108	16,219
Present value of net minimum payments.....	\$535,482	\$278,265

The reduction shown for restricted cash and investments in the amount of \$16,327,000 are monies held by the bond trustee to be used primarily for construction expenditures, including \$108,000 held on behalf of the Maryland Economic Development Corporation.

The assets acquired through capital leases are as follows (amounts expressed in thousands).

Asset	Third Parties
	Amount
Construction in progress	\$ 15,377
Land and improvements	11,814
Buildings and improvements.....	636,157
Machinery and equipment	300,181
Infrastructure.....	47,724
Total acquired assets.....	1,011,253
Less: accumulated depreciation	(297,224)
Total capital assets - net.....	\$ 714,029

Other Liabilities -

The Maryland Department of Transportation has entered into several financing agreements, primarily with the Maryland Transportation Authority, for the financing of various transportation related projects, similar in nature to capital leases. The Department has obligations under other long-term liabilities of \$391,029,000 as of June 30, 2007, bearing interest at annual rates ranging from 2.7% to 6.7%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2007 (amounts expressed in thousands).

Years Ending June 30,	Other Liabilities
2008.....	\$ 35,192
2009.....	40,890
2010.....	40,954
2011.....	41,009
2012.....	41,149
2013-2017	170,677
2018-2022	140,565
2023-2027	136,296
2028-2032	44,187
2033-2037	8,788
Total future minimum payments	699,707
Less: Amount representing interest	277,577
Less: Restricted cash and investments	31,101
Present value of net minimum payments	\$391,029

The reduction shown for restricted cash and investments in the amount of \$31,101,000 is monies held by the bond trustee on behalf of the Maryland Transportation Authority to be used primarily for construction expenditures.

The assets acquired through other long-term liabilities are as follows (amounts expressed in thousands).

Asset	Amount
Construction in progress	\$ 16,889
Buildings and improvements	363,100
Machinery and equipment	7,867
Infrastructure	<u>247,231</u>
Total acquired assets	635,087
Less: accumulated depreciation	<u>73,906</u>
Total capital assets – net.....	<u>\$561,181</u>

For the governmental activities, compensated absences, self insurance, escheat property claim payments, net pension obligations, obligations under capital leases and other liabilities are generally liquidated by the general or special revenue fund as applicable.

B. Long Term Obligations – Business-type Activities:

Changes in long-term obligations for business-type activities as of June 30, 2007, are as follows (amounts expressed in thousands).

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Bonds Payable:					
Revenue bonds payable	<u>\$2,882,855</u>	<u>\$1,812,812</u>	<u>\$555,284</u>	<u>\$4,140,383</u>	<u>\$430,367</u>
Other Liabilities:					
Lottery prizes	199,524	39,146	68,615	170,055	36,527
Escrow deposits	49,712	11,264	10,272	50,704	7,476
Rebate liability	7,731	4,567	1,197	11,101	1,165
Compensated absences	9,025	6,071	5,680	9,416	2,127
Self insurance costs	6,782	1,752	1,959	6,575	1,020
Obligations under capital leases.....	1,256	292	424	1,124	506
Total other liabilities.....	<u>274,030</u>	<u>63,092</u>	<u>88,147</u>	<u>248,975</u>	<u>48,821</u>
Total long-term liabilities – business type activities....	<u>\$3,156,885</u>	<u>\$1,875,904</u>	<u>\$643,431</u>	<u>\$4,389,358</u>	<u>\$479,188</u>

Debt service requirements for business-type activities' notes payable and revenue bonds to maturity are as follows (amounts expressed in thousands).

Years Ending June 30,	Community Development Administration		Maryland Water Quality Financing Administration		Maryland Transportation Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2008.....	\$ 374,555	\$ 131,133	\$ 9,390	\$ 1,341	\$ 46,422	\$ 44,580
2009.....	67,455	127,772	9,242	2,750	49,446	46,818
2010.....	66,275	125,074	9,750	2,152	51,123	44,841
2011.....	65,530	122,273	10,040	1,708	52,960	42,697
2012.....	69,610	119,489	9,705	1,256	55,033	40,438
2013-2017	342,465	551,196	18,755	1,679	300,364	160,775
2018-2022	370,680	468,995			185,195	94,213
2023-2027	335,205	380,217			147,905	54,746
2028-2032	399,955	292,565			80,825	20,844
2033-2037	478,730	181,045			34,615	2,206
2038-2042	323,065	60,552				
2043-2047	90,865	10,575				
2048-2052	4,635	192				
Total.....	<u>2,989,025</u>	<u>2,571,078</u>	<u>66,882</u>	<u>10,886</u>	<u>1,003,888</u>	<u>552,158</u>
Discounts, premiums and other deferred costs	27,823		1,383			
Accumulated accreted interest					<u>51,382</u>	
Total.....	<u>\$3,016,848</u>	<u>\$2,571,078</u>	<u>\$68,265</u>	<u>\$10,886</u>	<u>\$1,055,270</u>	<u>\$552,158</u>

Community Development Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, proceeds of which were used for various mortgage loan programs. Assets aggregating approximately \$3,497,373,000 and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 1.7% to 6.8%, with the bonds maturing serially through June, 2049. The principal amount outstanding as of June 30, 2007, is \$3,016,848,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 102% of the outstanding principal amount. During fiscal year 2007, the Administration issued \$1,481,895,000 of revenue bonds with interest rates ranging from 3.4% to 6.1% and maturing serially through June, 2049.

The Administration issues short-term tax-exempt bonds to preserve its allocation of the state volume ceiling until the issuance of long-term bonds to finance mortgages. In fiscal year 2007, the Administration issued 2006 Series M, N, Q, and R, which are still outstanding as of June 30, 2007. Bonds of 2005 Series F, 2005 Series G, 2006 Series C, and 2006 Series D were issued in fiscal year 2006 and either were redeemed prior to maturity or matured in fiscal year 2007.

The short-term debt that was issued in fiscal year 2007 was in the Residential Revenue Bond Program Fund.

The following summarizes short-term debt activity in 2007 (amounts expressed in thousands).

Outstanding short-term debt as of June 30, 2006	\$ 315,000
Issuance	300,000
Retirements.....	(315,000)
Outstanding short-term debt as of June 30, 2007	\$ 300,000

This amount of short-term debt is included in the restricted revenue bonds payable on the Statement of Net Assets.

Subsequent to June 30, 2007, the Administration issued a total of \$254,875,000 and redeemed a total of \$29,945,000, of revenue bonds.

Interest Rate Swaps:

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the Administration entered into interest rate swaps in connection with variable rate revenue bonds totaling \$170,625,000. The intention of the swaps was to effectively change the Administration's variable interest rate on the bonds to fixed rates.

Terms. The bonds and the related swap agreements mature from March 1, 2026 through September 1, 2040, and the swaps' notional amount of \$170,625,000 matches the amount of the variable rate bonds. Under the swap agreements, the Administration pays the counterparty a fixed payment of from 3.9% to 5.2% and receives a variable payment computed as either 64% of the London Interbank Offered Rate (LIBOR) plus .3% or 100% of LIBOR. Conversely, the bonds' variable rate is based on the Securities Industry and Financial Markets Association Rate.

Fair value. Because interest rates have generally increased since execution of the swaps, the swaps have a fair value of \$1,182,000 as of June 30, 2007. The swaps' fair value may be countered by an increase in total interest payments required under the variable rate bonds, creating a higher synthetic interest rate. Because the coupons on the Administration's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value of the swaps is based on market value and is affirmed by an independent advisor who used valuation methods and assumptions in accordance with GASB Technical Bulletin No. 2003-1.

Credit risk. The fair value of the swaps represents the Administration's credit exposure to each counterparty as of June 30, 2007. The fair value of three swaps with one counterparty is \$347,000, the fair value of one swap with a second counterparty is \$1,190,000, and the negative fair value of one swap with a third counterparty is \$355,000. Therefore, the Administration's maximum possible loss as of June 30, 2007 is \$1,537,000. It is not exposed to credit risk with the third counterparty as of June 30, 2007 because the swap has a negative fair value. However, should the valuation of the swap change and the fair value turn positive, the Administration would be exposed to credit risk in the amount of the swap's fair value. The first counterparty is rated AAA by Standard & Poor's and Aaa by Moody's, the second counterparty is rated AAA by Standard & Poor's and Fitch and Aaa by Moody's, and the third counterparty is rated Aaa by Moody's and AA by Standard & Poor's and Fitch. To mitigate the potential for credit risk, if the counterparties' credit quality falls below A, the fair value of the swaps will be fully collateralized by the counterparties.

Basis risk. The swaps would expose the Administration to basis risk should the relationship between LIBOR and the Securities Industry and Financial Markets Association Rate converge. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

Termination risk. The Administration or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The counterparty can terminate the contract if the ratings on the related bonds fall below the credit rating thresholds. If a swap is terminated, the underlying variable rate bonds may be exposed to rising interest rates. If at the time of such termination a swap has a negative fair value, the Administration would be liable to the counterparty for a payment equal to the swap's fair value along with any accrued interest.

Swap payments and associated debt. Using rates as of June 30, 2007, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (amounts expressed in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Years Ending June 30,	Hedged Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2008.....		\$ 6,405	\$ 417	\$ 6,822
2009.....		7,209	426	7,635
2010.....		7,226	426	7,652
2011.....		7,226	426	7,652
2012.....		7,243	418	7,661
2013-2017		36,113	2,121	38,234
2018-2022		36,129	2,121	38,250
2023-2027	\$ 920	36,129	2,121	39,170
2028-2032	74,005	33,149	1,887	109,041
2033-2037	58,760	13,641	1,197	73,598
2038-2042	36,940	2,987	333	40,260
Total.....	\$170,625	\$193,457	\$11,893	\$375,975

On July 17, 2007, the Administration entered into an interest rate swap with a notional amount of \$62,200,000. This agreement, a synthetic fixed rate contract, will hedge \$62,200,000 of 2007 Series J variable rate bonds issued on August 9, 2007.

Maryland Water Quality Financing Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Environment, has issued revenue bonds for providing loans. Interest rates range from 3.3% to 6.6%, payable semiannually, with annual installments from \$2,930,000 to \$10,040,000 to September 1, 2015. The principal amount outstanding as of June 30, 2007, is \$68,265,000. These bonds are payable solely from the revenue, money or property of the Administration.

Maryland Transportation Authority Bonds:

Bonds outstanding as of June 30, 2007, are as follows (amounts expressed in thousands).

Series 1992 Capital appreciation refunding and financing revenue bonds for the Authority's Transportation Facilities Projects maturing in annual installments of original principal ranging from \$720 to \$6,197 from July 1, 2007, to July 1, 2015, with approximate yield to maturity of 6.3% to 6.4% and an accreted amount	\$ 85,420
BWI Consolidated Car Rental Facility Revenue bonds, Series 2002a, maturing in annual installments ranging from \$1,840 to \$8,505 from July 1, 2007, to July 1, 2032, with interest rates ranging from 2.8% to 6.7%, payable semiannually	111,665
BWI Parking Garage Revenue Bonds, Series 2002b, maturing in annual installments ranging from \$8,185 to \$17,470 from March 1, 2008, to March 1, 2027, with interest rates ranging from 4.0% to 5.3%, payable semiannually	246,365
BWI Facilities Projects Bonds, Series 2003, maturing in annual installments ranging from \$3,200 to \$11,200 from March 1, 2008, to March 1, 2014, with current variable rates of 3.3% and 3.9%, payable semiannually	64,100
WMATA Metrorail Parking Projects Bonds, Series 2004, maturing in annual installments ranging from \$1,070 to \$2,780 from March 1, 2008, to March 1, 2029, with interest rates ranging from 3.0% to 5.0%, payable semiannually	38,960
Series 2004 Revenue bonds, for construction and improvement of Authority's Transportation Facilities Projects, maturing in annual installments of \$1,000 to \$15,235 from July 1, 2007, to July 1, 2032, with interest rates ranging from 4.5% to 5.3% payable semiannually, and term bonds maturing July 1, 2034, with an interest rate of 5.0%	160,000
Calvert Street Parking Project Revenue bonds, Series 2005, maturing in annual installments ranging from \$585 to \$1,415 from July 1, 2007 to July 1, 2032, with interest rates ranging from 3.3% to 4.4% payable semiannually	23,760
Grant and Revenue Anticipation Bonds, Series 2007 (GARVEE bonds), maturing in annual installments ranging from \$21,290 to \$34,390 from March 1, 2008 to March 1, 2019, at an interest rate of 4.0%, payable semiannually to finance the Intercounty Connector Highway Project	325,000
Total.....	\$1,055,270

Revenue bonds are payable solely from the revenues of the transportation facilities projects. Capital assets constructed for BWI facilities, WMATA Metrorail and the Calvert Street Parking Project are not capital assets of the Authority. Capital appreciation bonds payable as of June 30, 2007, include an accreted amount of \$51,382,000.

Refunded debt of \$63,820,000 was considered defeased as of June 30, 2007. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements.

The Authority is authorized to issue Grant and Revenue Anticipation Bonds (GARVEE Bonds) to a maximum amount of \$750,000,000 to be used by the Maryland Department of Transportation to build the Intercounty Connector (ICC) highway project to be built in Montgomery and Prince George's Counties, Maryland. Debt service on these bonds is payable from a portion of Maryland's future Federal highway aid and other pledged moneys. As of June 30, 2007, GARVEE Bonds in the amount of \$325,000,000 have been issued. These bonds are not general obligations of the Authority or legal obligations of the Maryland Department of Transportation or the State.

On September 20, 2007, revenue bonds aggregating \$300,000,000 were issued for transportation facilities projects. The interest rate on the new issue is 4.6%, and the bonds mature serially through 2041.

Obligations Under Capital Leases -

Obligations of business-type activities under capital leases as of June 30, 2007, are as follows (amounts expressed in thousands).

Years Ending June 30,	State Lottery Agency
2008	\$506
2009	506
2010	67
2011	67
2012	34
Total minimum lease payments	1,180
Less: Imputed interest	56
Present value of net minimum lease payments.....	\$1,124

The Lottery has entered into lease agreements for certain on-line gaming system equipment and a computer system. As of June 30, 2007, assets acquired under leases and the related accumulated amortization totaled \$2,294,000 and \$1,482,000, respectively, and are included in capital assets in the Statement of Net Assets, Business-type Activities.

C. Notes and Revenue Bonds Payable - Component Units:

Higher Education -

Certain State higher education institutions have issued revenue bonds for the acquisition and renovation construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. Interest rates range from 2.0% to 6.1% on the revenue bonds.

Debt service requirements to maturity, excluding debt of the foundations in the amount of \$1,861,000, are as follows (amounts expressed in thousands).

Years Ending June 30,	Notes Payable and Other Long-Term Debt		Revenue Bonds	
	Principal	Interest	Principal	Interest
2008.....	\$ 1,817	\$ 4,609	\$ 66,905	\$ 44,943
2009.....	2,122	4,528	69,304	42,335
2010.....	2,264	4,418	67,333	39,448
2011.....	2,394	4,300	64,885	36,536
2012.....	2,511	4,176	67,100	32,402
2013-2017	7,566	18,943	276,480	121,764
2018-2022	44,577	14,284	236,625	55,148
2023-2027	21,000	96	87,215	13,604
2028-2032			16,470	2,984
2033-2037			3,946	261
2038-2039			255	6
Total.....	84,251	55,354	956,518	389,431
Accumulated accreted interest and other deferred costs.....			28,733	
Total.....	\$84,251	\$55,354	\$985,251	\$389,431

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

As of June 30, 2007, higher education institutions have defeased debt outstanding of \$280,603,000 resulting from the refunding of previously issued debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2007, cash and cash equivalents and investments were held by the trustees for the higher education institutions in the amount of \$120,426,000 for the University System of Maryland (System), \$5,671,000 for St. Mary's College of Maryland, and \$5,588,000 for Morgan State University respectively.

On July 19, 2006, the System issued \$80,000,000 of 2006 Series A Revenue Bonds to finance new educational and auxiliary facilities and for renovations. The bonds bear interest at 4%-5%. The bonds mature from 2007 until 2026. The bonds were issued with a \$2,930,000 premium.

On May 9, 2007, the System issued \$75,935,000 of 2007 Refunding Series A Revenue Bonds at a premium of \$3,836,000. The Series consist of Serial bonds maturing from 2008 through 2023 with stated interest rates of 4.0%-5.0%. Proceeds will be used to advance refund \$75,630,000 of the outstanding principal of previously issued debt. The purpose of the refunding was to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is \$4,961,000. The deferred amount on refunding is \$2,232,000 and the economic gain on the transaction is \$3,674,000.

On February 15, 2007 St. Mary's College of Maryland issued \$4,000,000 of subordinate revenue bond anticipation notes to finance the costs of design, construction, renovation and furnishing of an auxiliary facility project. The notes bear interest at 3.9%. Monthly interest payments are due, there is no prepayment penalty, and the loan is due in full on February 15, 2012.

Obligations under capital leases of \$9,650,000 exist as of June 30, 2007, bearing interest at annual rates ranging from 2.8% to 6.8%.

Maryland Stadium Authority (Authority) - Revenue Bonds:

Debt service requirements to maturity for Maryland Stadium Authority revenue bonds and notes payable are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2008.....	\$ 15,020	\$ 17,088
2009.....	15,300	16,239
2010.....	16,285	15,318
2011.....	17,340	14,351
2012.....	18,490	13,371
2013-2017.....	96,400	48,281
2018-2022.....	76,310	19,214
2023-2027.....	27,945	4,010
Total.....	283,090	147,872
Unamortized discount net of unamortized premium	(12)	
Total	\$283,078	\$147,872

The Authority has issued various lease revenue bonds and notes to finance the construction of the baseball and football stadiums, convention center expansions in Baltimore City and the Town of Ocean City and certain other facilities. The outstanding debt is to be repaid through capital lease payments from the State, as the State has entered into capital lease arrangements for the use of the facilities financed with the debt proceeds.

As of June 30, 2007, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium	\$119,784	Variable	December 15, 2019
Football Stadium	74,066	Variable	March 1, 2015
Baltimore City Convention Center	31,600	Variable	December 15, 2014
Ocean City Convention Center.....	10,588	4.8% to 5.4%	December 15, 2015
Hippodrome Performing Arts Center.....	17,788	5.0% to 6.3%	June 15, 2022
Montgomery County Conference Center.....	20,692	2.0% to 5.0%	June 15, 2024
Camden Station	8,560	3.0% to 5.2%	December 15, 2024
Total.....	\$283,078		

12. Insurance:

The self-insurance liabilities represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.

All funds, agencies and authorities of the State participate in the self-insurance program (Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or

public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Non-incremental claims adjustment expenses have been included as part of the liability for claims and adjustments for the general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 3.3% discount rate. The workers' compensation and property and casualty costs are based upon separately determined actuarial valuations for the following fiscal years ending. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 2007 were as follows (amounts expressed in thousands).

	Balance June 30, 2006	Claims and Changes in Estimates	Claim Payments	Balance June 30, 2007	Amount Due Within One Year
Property, casualty and general liability	\$ 16,372	\$ 7,646	\$ 7,842	\$ 16,176	\$ 5,650
Workers' compensation	242,993	55,465	46,274	252,184	39,089
Employee health benefits.....	66,903	768,958	761,736	74,125	74,125
Total self-insurance costs	\$326,268	\$832,069	\$815,852	\$342,485	\$118,864

As of June 30, 2007, the Program held \$377,985,000 in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 2006 were as follows (amounts expressed in thousands).

	Balance June 30, 2005	Claims and Changes in Estimates	Claim Payments	Balance June 30, 2006	Amount Due Within One Year
Property, casualty and general liability	\$ 16,654	\$ 7,712	\$ 7,994	\$ 16,372	\$ 5,818
Workers' compensation	230,364	60,453	47,824	242,993	37,664
Employee health benefits.....	78,211	720,567	731,875	66,903	66,903
Total self-insurance costs	\$325,229	\$788,732	\$787,693	\$326,268	\$110,385

As of June 30, 2006, the Program held \$231,389,000, in cash and investments designated for payments of these claims.

13. Fund Equity:

The unrestricted deficit for governmental activities on the government-wide statement of net assets is \$559,318,000. This occurs because the State incurs debt for the purposes of capital acquisition and construction on behalf of local governments and private organizations. Since the incurrence of this debt does not result in capital assets of the State, the debt is not reflected in the net asset category, invested in capital assets, net of related debt, but rather in the unrestricted net assets category. As of June 30, 2007, the State has reported outstanding general obligation bonds and capital leases applicable to these non-State projects of \$3,399,801,000. Without State financing for these capital assets, the State would have reported unrestricted net assets of governmental activities in the amount of \$2,840,483,000.

The statement of net assets for the primary government reports \$1,924,575,000 of restricted net assets, including \$17,969,000 restricted by enabling legislation.

A portion of the general fund's fund balance, in the amount of \$1,589,756,000 as of June 30, 2007, has been reserved for the State Reserve Fund. The State Reserve Fund is comprised of the Dedicated Purpose Account, Economic Development Opportunities Program Account, Catastrophic Event Account, Revenue Stabilization Account and Joseph Fund Account with balances as of June 30, 2007, of \$142,591,000, \$6,652,000, \$8,310,000, \$1,432,189,000, and \$14,000, respectively. The Dedicated Purpose Account is designed to retain appropriations for major multi-year expenditures and to meet contingency requirements. The Economic Development Opportunities Program Account is to be used for extraordinary economic development opportunities and only as a supplement to existing programs. The Catastrophic Event Account is to be used to respond without undue delay to a natural disaster or other catastrophic event that cannot be managed without appropriations. The Revenue Stabilization Account is designed to retain State revenues for future needs and reduce the need for future tax increases. The purpose of the Joseph Fund Account is to set aside reserves in time of economic prosperity to meet the emerging needs of economically disadvantaged citizens of the State.

A portion of the other governmental funds' fund balance is reserved for sinking fund deposits of \$6,153,000, set aside to redeem the 2002 and 2005 Qualified Zone Academy Bonds due in 2016 and 2020, respectively. A portion of the general fund unreserved fund balance is designated for fiscal year 2008 appropriations in the amount of \$195,050,000. Portions of the other governmental funds' unreserved fund

balance are designated for payment of the debt service on General Obligation and Department of Transportation long-term debt in the amounts of \$54,751,000 and \$2,381,000, respectively. The undesignated deficit fund balance in other governmental funds of \$26,128,000 results from the reservation for encumbrances of \$342,371,000 for future construction projects in the capital projects fund.

The unrestricted deficit fund balance in other enterprise funds of \$3,075,000 for the Economic Development Insurance Programs occurred because of restrictions for insuring mortgages.

14. Segment Information:

The State's Economic Development Loan Program contains two separately identifiable activities that have separately issued revenue bonds outstanding: housing loans of the Community Development Administration and water quality loans of the Maryland Water Quality Administration.

The Community Development Administration (CDA) has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. The assets of the loan program and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. The bond indentures require the CDA to separately account for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

The Maryland Water Quality Administration has issued revenue bonds to encourage capital investment for wastewater treatment systems. These bonds are payable solely from, and secured by, the revenue, money or property of the Maryland Water Quality Administration. The bond indentures require separate accounting for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

Summary financial information for the two loan programs is presented below.

Condensed Statement of Net Assets		
As of June 30, 2007		
<i>(Expressed in Thousands)</i>		
	Community Development Administration	Maryland Water Quality Administration
Assets:		
Current restricted assets.....	\$1,140,184	\$ 31,170
Non-current restricted assets.....	2,357,189	93,997
Total assets.....	3,497,373	125,167
Liabilities:		
Current liabilities	446,073	12,101
Non-current liabilities	2,671,803	59,058
Total liabilities	3,117,876	71,159
Net Assets:		
Restricted	379,497	54,008
Total net assets.....	\$ 379,497	\$ 54,008

Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
For the Year Ended June 30, 2007		
<i>(Expressed in Thousands)</i>		
	Community Development Administration	Maryland Water Quality Administration
Operating income (expenses):		
Interest on loan income.....	\$ 88,462	\$ 3,336
Other operating revenues	4,041	
Other operating expenses	(17,289)	(487)
Operating income	75,214	2,849
Non-operating revenues (expenses).....	(41,527)	(7,978)
Change in net assets	33,687	(5,129)
Beginning net assets.....	345,810	59,137
Ending net assets	\$379,497	\$54,008

Condensed Statement of Cash Flows
For the Year Ended June 30, 2007

(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Net cash from:		
Operating activities	\$(542,851)	\$17,518
Non-capital financing activities	859,881	(18,249)
Investing activities	114,962	1,038
Beginning cash and cash equivalents	251,375	55
Ending cash and cash equivalents	\$ 683,367	\$ 362

15. Retirement Benefits:

State Retirement and Pension System of Maryland (System):

The State is a sole employer in the cost-sharing multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of 114 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1600, Baltimore, Maryland 21202-1600.

Plan Description:

The System is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland and consists of several plans which are managed by the System's Board of Trustees. All State employees and employees of participating entities are covered by the plans.

"Retirement System" — retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" — retirement programs for employees and teachers hired after January 1, 1980, and prior employees who elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after 5 years of service. A member terminating employment before attaining retirement age, but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of service credit, regardless of age. Members of the Pension Systems may retire with full benefits after attaining the age 62, or after completing 30 years of Service Credit, regardless of age. State police members may retire with full benefits after attaining age 50, or completing 22 years of service credit, regardless of age. Members of the Law Enforcement Officers System may retire with full benefits at age 50, or completing 25 years of service credit, regardless of age.

The annual benefit for Retirement System Members is equal to 1/55 (1.8%) of the member's highest three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. A member of the Pension System will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.8% of the highest three consecutive year average salary multiplied by the number of years of service credit after June 30, 1998. The annual benefit for a Pension System member who is employed by a participating governmental unit that does not provide enhanced pension benefits is equal to 0.8% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security wage base. A member of either type of pension system may retire with reduced benefits after attaining age 55 and completing 15 years of service.

The annual retirement allowance for a State Police member is equal to 2.55% of the member's highest three-year average salary multiplied by each year of service up to a maximum of 28 years. The annual retirement allowance for a member of the Law Enforcement Officers Pension System is 2.0% of the member's highest three-consecutive year average salary multiplied by each year of service up to a maximum of 30 years. Neither the State Police Retirement System nor Law Enforcement Officers Pension System provide for an early retirement.

Funding Policy:

The State's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the

System a fixed percentage of their regular salaries and wages, 7.0% or 5.0% depending on the retirement plan selected. Members of the Pension System are required to contribute to the System 3.0% of their regular salaries and wages for fiscal year 2007, 4.0% for fiscal year 2008, and 5.0% thereafter. Members of the Pension System who are employed by a participating government that does not provide enhanced pension benefits are required to contribute to the System 5.0% of their regular salaries and wages that exceed the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 4% of earnable compensation. All contributions are deducted from each member's salary, and the resulting payments are remitted to the System on a regular and periodic basis.

The contribution requirements of the System members, as well as the State and participating governmental employers, are established and may be amended by the Board of Trustees for the System. Effective July 1, 2002, State law provides that the contribution rates may be more or less than the actuarially determined rates for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. Contributions to these Systems are based on the Corridor Funding Method which establishes a budgetary contribution rate. During fiscal year 2007, the State paid \$742,562,000, of the required contribution totaling \$951,809,000 which was 8.3% of covered payroll and 78.0% of the required payment. The difference represents an additional pension cost liability in the government-wide statement of net assets. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll. As of June 30, 2007, the State's membership includes 170,000 active members, 46,000 vested former members, and 96,000 retirees and beneficiaries.

Annual Pension Cost and Net Pension Obligation:

The annual pension cost and net pension obligation as of June 30, 2007, are as follows (amounts expressed in thousands).

	Teachers' Retirement and Pension System	Employees' Retirement and Pension System	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System
Annual required contribution.....	\$ 569,231	\$ 315,928	\$11,560	\$15,937	\$29,412
Interest on net pension obligation	9,543	24,309			
Actuarial adjustment to					
annual required contribution.....	(6,797)	(17,314)			
Annual pension cost.....	571,977	322,923	11,560	15,937	29,412
Contributions made	484,624	201,029	11,560	15,937	29,412
Increase in net pension obligation	87,353	121,894			
Net pension obligation,					
beginning of year.....	123,131	313,662			
Net pension obligation,					
end of year	\$ 210,484	\$ 435,556	\$ -	\$ -	\$ -

Three Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

Plan	Annual Pension Cost As of June 30		
	2007	2006	2005
Teachers' Retirement and Pension System.....	\$ 571,977	\$ 485,799	\$ 458,735
Employees' Retirement and Pension System	322,923	274,163	246,709
State Police Retirement System.....	11,560	6,681	158
Judges' Retirement System.....	15,937	14,442	12,484
Law Enforcement Officers' Pension System	29,412	28,361	24,276

Plan	Percentage of Annual Pension Cost Contributed As of June 30		
	2007	2006	2005
Teachers' Retirement and Pension System.....	85%	91%	96%
Employees' Retirement and Pension System	62	59	53
State Police Retirement System.....	100	100	100
Judges' Retirement System.....	100	100	100
Law Enforcement Officers' Pension System	100	100	100

Plan	Net Pension Obligation As of June 30		
	2007	2006	2005
Teachers' Retirement and Pension System.....	\$210,484	\$123,131	\$ 79,394
Employees' Retirement and Pension System	435,556	313,662	200,224
State Police Retirement System.....			
Judges' Retirement System.....			
Law Enforcement Officers' Pension System			

The fiscal year 2007 net pension obligations were determined as a part of an actuarial valuation as of June 30, 2007. The significant actuarial assumptions listed below were used for all plans.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing (differences in experienced and assumed return)
Rate of return on investments	7.75%
Rate of salary increase	Varies
Projected inflation rate.....	3.5%
Post retirement benefit increase	3.0 - 3.5%
Amortization method.....	Level Percent of Payroll
Remaining amortization period.....	13 years as of June 30, 2007 for prior UAAL
New layer as of June 30, 2001	19 years as of June 30, 2007 for new UAAL
New layer as of June 30, 2002	20 years as of June 30, 2007 for new UAAL
New layer as of June 30, 2003	21 years as of June 30, 2007 for new UAAL
New layer as of June 30, 2004	22 years as of June 30, 2007 for new UAAL
New layer as of June 30, 2005	23 years as of June 30, 2007 for new UAAL
New layer as of June 30, 2006	24 years as of June 30, 2007 for new UAAL
New layer as of June 30, 2007	25 years as of June 30, 2007 for new UAAL
Status of period (Open or Closed).....	Closed

Maryland Transit Administration Pension Plan (Plan):

The Plan is a single employer non-contributory plan, which covers all Maryland Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. The Maryland Transit Administration was given authority to establish and maintain the Plan under Transportation Article, Section 7-206(b)(2)(ii), of the Annotated Code of Maryland. For the year ended June 30, 2007, the Administration's covered and total payroll was \$135,098,000. The Plan is administered and funded in compliance with the collective bargaining agreements. The Plan prepares separately audited financial statements, which can be obtained from the Maryland Transit Administration Pension Plan, William Donald Schaefer Tower, 6 Saint Paul Street, Baltimore, Maryland 21202-1614.

Plan Description:

The Plan provides retirement, normal and early, death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.4% - 1.6% (1.3% prior to September 8, 2002) of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 2007, membership in the Plan includes 1,250 active members, 489 vested former members, and 2,689 retirees and beneficiaries. There were no investments in, loans to, or leases with parties related to the Plan. There were no Plan investments representing 5 percent or more of total Plan assets.

Funding Policy:

The Administration's required contributions are based on actuarial valuations. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling \$20,872,000 (15.4% of covered payroll) for fiscal year 2007 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2006. This amount consisted of \$4,038,000 normal cost and \$16,834,000 amortization of the actuarial accrued liability (3.0% and 12.4%, respectively, of covered payroll). The liquidation period for the actuarial accrued liabilities, as provided by law, is 12 years from June 30, 2007.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations. The computation of the annual required contribution for fiscal year 2007 was based on the same actuarial

assumptions, benefit provisions, actuarial funding method and other significant factors used to determine pension contribution requirements in the previous year.

Annual Pension Cost and Net Pension Obligation:

The Administration's annual pension costs for the fiscal years ending June 30, 2007, 2006, and 2005 were \$20,872,000, 20,435,000 and \$19,695,000, respectively.

The Administration contributed 84% of the annual pension cost for the fiscal year ended June 30, 2007, and 100% of the annual pension cost for each of the fiscal years ended June 30, 2006 and 2005 for the Plan. Accordingly, the Administration's net pension obligation was \$3,373,000 as of June 30, 2007, and zero as of June 30, 2006 and 2005 for the Plan.

The fiscal year 2007 net pension obligations were determined as a part of an actuarial valuation as of June 30, 2007. The significant actuarial assumptions listed below were used for the Plan.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing
Rate of return on investments	7.8% Compounded per Annum
Projected inflation rate	4.0%
Rate of salary increase	4.0% Compounded per Annum
Postretirement benefit increase	3.0%-4.0% of original benefit amount
Amortization method.....	Level dollar annual installments
Remaining amortization period.....	12 years from June 30, 2007 for prior UAAL
New amortization period	20 years from June 30, 2007 for new UAAL
Status of period (Open or Closed).....	Closed

During fiscal year 2007, there were no changes in actuarial assumptions or benefit provisions from 2006 that significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term.

Post Retirement Benefits:

The State also provides, in accordance with State Merit System Laws, post employment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 85% of retiree premiums to cover medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for post employment health care benefits, which is based on health care insurance charges for current employees. During fiscal year 2007, retiree health care benefits paid by the State totaled \$255,929,000. Costs are recognized as they are paid. There are 33,939 participants currently receiving benefits. During fiscal year 2007, the State of Maryland received \$18,833,000 from the Federal government for Medicare Part D payments. See Note 1 concerning implementation of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.

Deferred Compensation Plan (Plan):

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. State law provides that the Governor appoint the nine member Board of Trustees of the State's Supplemental Retirement Systems. The Board is responsible for the implementation, maintenance and administration of the Plan.

The State of Maryland Match Plan and Trust was established by the State on July 1, 1999. The plan is designed to be a tax-qualified 401(a) defined contribution matching plan under Internal Revenue Code section 401(a). Under plan provisions, the State contributes to each participant's account an amount equal to each participant's contributions to the State's Supplemental Retirement Plans during the same plan year. By statute, the maximum amount contributed to this plan for each participant was \$600 in State fiscal year 2007. An employee's interest in his/her account is fully vested at all times. The match program continues to be established and funded in statute. For the plan year ended December 31, 2006, the State contributed \$17,986,000 and participants contributed \$157,201,000 to the Plan.

16. Commitments:

The State's governmental funds lease office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. These leases contain termination for convenience clauses providing for cancellation after a certain number of days notice to lessors. In addition, these leases contain appropriation clauses indicating that continuation of the lease is subject to appropriation by the legislature. Rent expenditures for the year ended June 30, 2007, were approximately \$59,154,000.

As of June 30, 2007, the governmental funds, other than the Department of Transportation, had commitments of approximately \$342,371,000 and \$41,457,000, for the completion of projects under construction and for service contracts, respectively.

As of June 30, 2007, the Department of Transportation and Maryland Transportation Authority had commitments of approximately \$3,250,643,000 and \$703,000,000 respectively, for construction of highway and mass transit facilities.

Approximately 35% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various noncancelable operating leases with scheduled rent increases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years Ending June 30	Amounts
2008	\$165,869
2009	88,748
2010	66,539
2011	55,062
2012	26,368
2013 -2017	165,637
Total.....	\$568,223

The cost and accumulated depreciation of the assets as of June 30, 2007, are \$1,433,557,000 and \$438,201,000, respectively.

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenue was approximately \$140,145,000 for the year ended June 30, 2007.

As of June 30, 2007, the Maryland State Lottery Agency had commitments of approximately \$97,061,000, for services to be rendered relating principally to the operation of the lottery game.

As of June 30, 2007, several enterprise fund loan programs within the Department of Business and Economic Development had committed to lend a total of \$53,189,000 in additional loans, i.e., the Maryland Economic Development Assistance Authority Fund, \$33,473,000, Maryland Economic Development Opportunities Program Fund, \$17,960,000, Maryland Enterprise Investment Fund, \$1,421,000, and Maryland Economic Adjustment Fund, \$335,000. The State Funded Loan Programs and Maryland Water Quality Administration, enterprise fund loan programs, committed to provide \$83,135,000 and \$173,624,000 in loans, respectively. The Community Development Administration, also an enterprise fund loan program, has \$337,315,000 of revenue bonds outstanding that are not included in the financial statements of the Administration because the bonds are not guaranteed by the State or any other program of the State or any political subdivision. The revenue bonds are secured solely by the individual multi-family project properties, related revenues, applicable credit enhancements, or investments equal to the debt outstanding.

Pursuant to legislation enacted by the Maryland General Assembly in April, 1996, the Maryland Stadium Authority is required to pay \$2,400,000 per year into the Public School Construction Fund over ten years, subject to availability of funds, beginning in fiscal year 2001. Payment for fiscal year 2007 was required and paid.

As of June 30, 2007, the higher education fund had commitments of approximately \$290,272,000 for the completion of projects under construction.

17. Contingencies:

The State is party to legal proceedings that normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 2007, economic development loan programs were contingently liable to financial institutions for \$8,083,000 for the repayment of loans for small businesses. Non-major enterprise funds were contingently liable as insurers of \$177,108,000 of \$403,754,000 mortgage loans made by public and private lenders. Non-major component units were contingently liable as insurers of \$30,662,000 of \$474,215,000 economic development and growth bonds issued by financial institutions.

As of June 30, 2007, there were approved economic development bonds pending settlement which were insured by non-major component units for \$750,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 2007, the State estimates that no material liabilities will result from such audits.

18. Tobacco Settlement:

Legislation enacted by the 1999 General Assembly established the Cigarette Restitution Fund for all revenues received from any judgment against or settlement with the tobacco industry. Expenditures from the fund are made by an appropriation in the annual State budget. The law provides that at least 50% of the appropriations shall be made for tobacco or health related purposes and the remaining appropriations may be for any public purpose. During the 2002 legislative session, legislation was enacted providing that for each of fiscal years 2003 through 2006, at least 25% of the appropriations shall be made for the Maryland Medical Assistance Program (Medicaid); the 2005 legislative session increased that percentage to 30% for each year for which appropriations are made. During the 2003 legislative session, legislation was enacted requiring that .15% of the fund be appropriated for enforcing the escrow requirements for nonparticipating tobacco product manufacturers. Transfers of \$138,935,000 were made from the proceeds in the Cigarette Restitution Fund for fiscal year 2007 expenditure of appropriations.

As part of the Master Settlement Agreement between the states and the tobacco companies, Maryland's share during fiscal year 2007 was \$145,845,000, including the award from the arbitration panel for attorney fees. This amount does not include \$15,783,000, the tobacco companies paid to the disputed account pending the outcome of litigation.

It is estimated that the payments made to the State pursuant to the Master Settlement over the next eight years will total \$1.4 billion. The actual amount paid each year, however, will reflect adjustments for inflation and cigarette shipment volume. In addition, the State expects to receive \$53,349,000 during that same period pursuant to an award for attorney fees by the national arbitration panel.

19. Landfill Closure and Postclosure Care Costs:

State and Federal laws require the Maryland Environmental Service (the Service) to cover the Midshore Regional Landfill (Midshore), which the current cell is expected to close in September 2007, and to perform certain maintenance and monitoring functions at the Midshore and Easton Landfill (Easton) sites for thirty years after closure. Although closure and postclosure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service reports a portion of these closure and postclosure care costs as a liability based upon the estimated useful life of the landfill. Midshore's current cells are approximately 82% filled as of June 30, 2007. Total closure and postclosure care costs for the landfill is currently estimated to be \$11,809,000, as determined through engineering studies and \$9,636,000 has been recognized as a liability on the June 30, 2007, Combining Statement of Net Assets, Non-Major Component Units. Actual costs may be subject to change due to inflation, deflation, technology, and changes in applicable laws and regulations.

A receivable from project participants corresponding to the accrued liability has also been recorded.

The Service will construct and bring on line by July 2008, an additional cell in order to extend the life of the landfill to December, 2010. Closure and postclosure costs will be adjusted in the future to include this increase in capacity.

Under Federal regulations, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2006. The Service expects to satisfy these requirements as of June 30, 2007, using the same criteria.



State of Maryland

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal Funds For the Year Ended June 30, 2007

(Expressed in Thousands)

	General Fund				Special Fund				Federal Fund			
	Budget Amounts		Actual	Variance Positive (Negative)	Budget Amounts		Actual	Variance Positive (Negative)	Budget Amounts		Actual	Variance Positive (Negative)
	Original	Final			Original	Final			Original	Final		
Revenues:	Budget	Budget	Amounts	(Negative)	Budget	Budget	Amounts	(Negative)	Budget	Budget	Amounts	(Negative)
Income taxes.....	\$ 7,264,584	\$ 7,167,363	\$ 7,268,949	\$ 101,586	\$ 226,035	\$ 194,135	\$ 193,148	\$ (987)				
Sales and use taxes	3,501,493	3,457,229	3,420,149	(37,080)	26,800	28,500	27,678	(822)				
Other taxes.....	935,978	956,817	961,416	4,599	2,513,168	2,393,065	2,374,619	(18,446)				
Licenses and fees.....	205,178	212,457	209,504	(2,953)	731,310	760,778	771,666	10,888				
Charges for services	292,807	294,546	306,806	12,260	858,463	1,132,637	928,575	(204,062)				
Interest and other												
investment income.....	117,373	172,795	260,708	87,913	6,580	35,892	60,640	24,748			\$ 1,545	\$ 1,545
Other	597,276	588,371	1,477,980	889,609	1,065,553	1,092,354	957,002	(135,352)				
Federal revenue.....						8,779	8,693	(86)	\$ 6,505,710	\$ 6,778,384	6,202,463	(575,921)
Total revenues.....	12,914,689	12,849,578	13,905,512	1,055,934	5,427,909	5,646,140	5,322,021	(324,119)	6,505,710	6,778,384	6,204,008	(574,376)
Expenditures and encumbrances												
by major function:												
Payments of revenue to civil												
divisions of the State.....	145,033	145,033	144,794	239								
Public debt.....					654,616	654,616	654,055	561				
Legislative.....	82,669	83,132	68,216	14,916		100	100					
Judicial review and legal.....	439,544	442,166	425,886	16,280	80,593	83,324	71,746	11,578	5,288	7,517	4,590	2,927
Executive and administrative												
control.....	301,689	291,184	269,095	22,089	245,298	264,615	229,870	34,745	130,858	146,459	136,206	10,253
Financial and revenue												
administration	193,523	184,011	178,779	5,232	83,148	83,749	72,720	11,029				
Budget and management....	160,545	69,758	63,207	6,551	32,050	24,712	16,178	8,534				
Retirement and pension.....					32,224	38,341	23,889	14,452				
General services	62,571	61,264	57,891	3,373	3,860	3,867	2,729	1,138	812	864	840	24
Transportation and highways					2,870,738	2,945,316	2,749,302	196,014	851,369	877,309	782,760	94,549
Natural resources and												
recreation.....	75,559	76,686	74,181	2,505	440,009	443,297	376,216	67,081	36,846	42,435	24,189	18,246
Agriculture	30,411	31,440	30,041	1,399	153,092	153,784	62,729	91,055	10,608	13,913	7,046	6,867

Health, hospitals and mental hygiene	3,563,763	3,593,291	3,578,973	14,318	385,298	409,450	335,904	73,546	3,053,553	3,141,399	3,108,472	32,927
Human resources.....	575,630	575,346	566,594	8,752	78,369	95,359	88,519	6,840	1,022,665	1,094,550	985,672	108,878
Labor, licensing and regulation	16,204	16,172	15,825	347	32,801	45,970	35,825	10,145	140,589	140,589	115,328	25,261
Public safety and correctional services	953,906	1,037,286	1,029,164	8,122	172,752	185,073	172,485	12,588	11,008	13,021	10,854	2,167
Public education.....	6,247,907	6,276,580	6,196,415	80,165	50,284	52,850	41,148	11,702	1,197,967	1,243,218	886,921	356,297
Housing and community development.....	36,250	48,531	20,567	27,964	82,057	90,297	59,609	30,688	257,442	257,443	194,662	62,781
Business and economic development.....	118,463	112,041	83,786	28,255	80,395	93,236	27,236	66,000	710	2,749	2,544	205
Environment	50,605	57,305	45,162	12,143	349,338	366,122	142,598	223,524	103,826	108,317	74,575	33,742
Juvenile services.....	217,442	241,791	238,503	3,288	484	4,724	472	4,252	15,007	15,683	10,529	5,154
State police.....	245,203	246,826	244,450	2,376	59,470	66,305	57,797	8,508	7,123	12,879	6,506	6,373
State reserve fund	771,382	791,382	791,382	(20,000)	5,955	5,955	5,955					
Reversions	(20,000)	(20,000)		(20,000)								
Total expenditures and encumbrances	14,268,299	14,361,225	14,122,911	238,314	5,892,831	6,111,062	5,227,082	883,980	6,845,671	7,118,345	6,351,694	766,651
Excess of revenues over (under) expenditures												
(under) expenditures	(1,353,610)	(1,511,647)	(217,399)	1,294,248	(464,922)	(464,922)	94,939	559,861	(339,961)	(339,961)	(147,686)	192,275
Other sources (uses) of financial resources:												
Transfers in (out)			(23,798)	(23,798)			64,151	64,151		147,686	147,686	
Excess of revenues over (under) expenditures and other sources (uses) of financial resources.....	(1,353,610)	(1,511,647)	(241,197)	1,270,450	(464,922)	(464,922)	159,090	624,012	(339,961)	(339,961)		339,961
Fund balances - beginning of the year	(727,320)	769,467	2,322,049	1,552,582	(1,025,868)	(1,073,137)	1,552,313	2,625,450	(876,715)	(876,715)		876,715
Fund balances - end of the year	\$(2,080,930)	\$(742,180)	\$2,080,852	\$2,823,032	\$(1,490,790)	\$(1,538,059)	\$1,711,403	\$3,249,462	\$(1,216,676)	\$(1,216,676)	\$ -	\$1,216,676

See accompanying Notes to Required Supplementary Information.

STATE OF MARYLAND

Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances

June 30, 2007

(Expressed in Thousands)

	General	Special
Amount in budgetary funds, fund balance (page 85)	\$2,080,852	\$1,711,403
Budgetary special funds reclassified to the general fund	1,023,831	(1,023,831)
Budgetary special funds reclassified to other funds		(471,029)
Other non-budgetary funds reclassified to governmental funds	179,977	3,229
Total of budgetary fund balances reclassified into the governmental funds' fund structure	3,284,660	219,772
Accounting principle differences:		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash	52,996	13,224
Investments	(13,121)	
Taxes receivable	17,542	1,574
Intergovernmental receivables	(20,947)	
Other accounts receivable	7,303	2,517
Prepaid items	(85,000)	
Inventories	24,233	67,557
Due from other funds	1,746	36,580
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Salaries payable	130,147	
Vouchers payable	228	
Accounts payable and accrued liabilities	(97,801)	(4,761)
Due to other funds	(27,114)	(9,426)
Accounts payable to political subdivisions	(50,536)	
Deferred revenue	44,778	
Accrued self insurance costs	(10,147)	
Financial statement governmental funds' fund balances, June 30, 2007 (page 26)	\$3,258,967	\$ 327,037

See accompanying Notes to Required Supplementary Information.

STATE OF MARYLAND

Required Supplemental Schedule of Funding Progress for Pension and Retirement System

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	(Unfunded AAL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll (1)	(Unfunded AAL) /Excess as a Percentage of Covered Payroll (2)
TEACHERS RETIREMENT AND PENSION SYSTEM						
2007	\$22,814,759	\$29,112,727	\$ (6,297,968)	78.37 %	\$5,709,765	(110.30)%
2006	21,575,451	25,617,484	(4,042,033)	84.22	5,269,185	(76.71)
2005	20,801,529	23,305,198	(2,503,669)	89.26	5,055,392	(49.52)
2004	20,155,415	21,724,178	(1,568,763)	92.78	4,615,607	(33.99)
2003	19,626,676	21,152,063	(1,525,387)	92.79	4,609,992	(33.09)
2002	19,424,000	21,117,047	(1,693,047)	91.98	4,426,832	(38.25)
STATE EMPLOYEES RETIREMENT AND PENSION SYSTEM						
2007	\$10,332,264	\$14,214,940	\$ (3,882,676)	72.69 %	\$3,022,476	(128.46)%
2006	9,825,416	12,184,215	(2,358,799)	80.64	2,828,348	(83.40)
2005	9,544,541	11,241,813	(1,697,272)	84.90	2,743,255	(61.87)
2004	9,330,876	10,457,119	(1,126,243)	89.23	2,625,312	(42.90)
2003	9,143,380	9,986,544	(843,164)	91.56	2,611,085	(32.29)
2002	9,104,514	9,456,630	(352,116)	96.28	2,578,835	(13.65)
STATE POLICE RETIREMENT SYSTEM						
2007	\$ 1,334,375	\$ 1,569,432	\$ (235,057)	85.02 %	\$ 83,191	(282.55)%
2006	1,301,877	1,325,875	(23,998)	98.19	80,649	(29.76)
2005	1,289,345	1,284,950	4,395	100.34	76,463	5.75
2004	1,287,981	1,200,605	87,376	107.28	76,445	114.30
2003	1,285,201	1,062,383	222,818	120.97	80,839	275.63
2002	1,300,402	1,030,575	269,827	126.18	83,142	324.54
JUDGES RETIREMENT SYSTEM						
2007	\$ 293,052	\$ 382,455	\$ (89,403)	76.62 %	\$ 37,638	(237.53)%
2006	273,679	352,537	(78,858)	77.63	35,939	(219.42)
2005	260,125	328,033	(67,908)	79.30	33,074	(205.32)
2004	250,272	312,285	(62,013)	80.14	32,937	(188.28)
2003	240,207	279,008	(38,801)	86.09	33,167	(116.99)
2002	234,558	267,532	(32,974)	87.67	31,824	(103.61)
STATE LAW ENFORCEMENT OFFICERS' PENSION SYSTEM						
2007	\$ 354,364	\$ 637,665	\$ (283,301)	55.57 %	\$ 82,079	(345.16)%
2006	316,709	504,373	(187,664)	62.79	71,678	(261.82)
2005	281,659	470,677	(189,018)	59.84	72,374	(261.17)
2004	253,582	400,755	(147,173)	63.28	63,828	(230.58)
2003	216,913	358,789	(141,876)	60.46	62,214	(228.05)
2002	188,971	305,193	(116,222)	61.92	65,928	(176.29)
TOTAL OF ALL PLANS						
2007	\$35,128,814	\$45,917,219	\$(10,788,405)	76.50 %	\$8,935,149	(120.74)%
2006	33,293,132	39,984,484	(6,691,352)	83.27	8,285,799	(80.76)
2005	32,177,199	36,630,671	(4,453,472)	87.84	7,980,558	(55.80)
2004	31,278,126	34,094,942	(2,816,816)	91.74	7,414,129	(37.99)
2003	30,512,377	32,838,787	(2,326,410)	92.92	7,397,297	(31.45)
2002	30,252,445	32,176,977	(1,924,532)	94.02	7,186,561	(26.78)

- (1) Covered payroll includes the payroll cost of those participants for which the State pays the retirement contribution but does not pay the participants' payroll cost. Starting with the year ending June 30, 2003 disclosure, the covered payroll has been restated to show actual salaries reported for valuation purposes, prior to any adjustments.
- (2) (Unfunded AAL)/ excess assets over AAL as a percentage of covered payroll.

STATE OF MARYLAND

Required Supplemental Schedule of Funding Progress for Maryland Transit Administration Pension Plan

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2007	\$124,496	\$322,597	\$198,101	38.6%	\$135,098	146.6%
2006	112,230	300,869	188,639	37.3	128,806	146.5
2005	101,810	261,536	159,726	38.9	121,415	131.6

Notes to Required Supplementary Information For the Year Ended June 30, 2007

1. Budgeting and Budgetary Control:

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the General Fund, which includes all transactions of the State, unless otherwise directed to be included in another fund and the Special Fund, which includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue fund includes only the operations (other than debt service and pension activities) of the Maryland Department of Transportation. The budgetary Federal fund revenue and expenditures are included in the GAAP General and Special Funds as federal revenues and expenditures by function. An annual budget is also prepared for the Federal Fund, which accounts for substantially all grants from the Federal government, and the current unrestricted and restricted funds of the Universities and Colleges. In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund.

All State budgetary expenditures for the general, special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. The legal level of budgetary control is at the program level for the general, special and federal funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by program within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 2007, the General Assembly approved a net increase in General Fund appropriations of \$144,500,000. Appropriations for programs funded in whole or in part from the special or federal funds may permit expenditures in excess of original special or federal fund appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent of encumbrances, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special and federal funds may be carried over to the extent of (a) available resources, and (b) encumbrances. The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. It controls expenditures at the program level to ensure legal compliance. The "Agency Appropriation Unencumbered Balance Report," which is available for public inspection at the Office of the Comptroller, provides a more comprehensive accounting of activity on the basis of budgeting at the legal level of budgetary control.

The original and amended budget adopted by the General Assembly for the general, special and federal funds is presented in the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - for the year ended June 30, 2007. The State's budgetary fund structure and the basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures. A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2007, is provided in the "Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances" immediately following the budgetary schedule.



State of Maryland

COMBINING FINANCIAL
STATEMENTS AND SCHEDULES

Non-Major Governmental Funds

Debt Service Funds

General Obligation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on general long-term debt obligations are accounted for in the general obligation bonds debt service fund.

Transportation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on transportation long-term debt obligations are accounted for in the transportation bonds debt service fund.

Capital Projects Fund

Transactions related to resources obtained and used for the acquisition, construction or improvement of certain capital facilities, including those provided to political subdivisions and other public organizations are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, Federal grants and operating transfers from the State's general fund. The State enters into long-term contracts for construction of major capital projects and records the related commitments as encumbrances.

STATE OF MARYLAND

Combining Balance Sheet

Non-major Governmental Funds

June 30, 2007

(Expressed in Thousands)

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds			Funds
Assets:				
Cash and cash equivalents.....	\$38,447			\$ 38,447
Cash and cash equivalents - restricted		\$ 22		22
Cash with fiscal agent - restricted.....	6,420	5		6,425
Investments - restricted.....		2,381		2,381
Taxes receivable, net	15,791			15,791
Other receivables	217		\$ 572	789
Due from other funds.....			362,090	362,090
Loans and notes receivable, net.....	5,879			5,879
Loans and notes receivable - restricted			5,825	5,825
Total assets.....	\$66,754	\$2,408	\$368,487	\$437,649
Liabilities:				
Vouchers payable		\$ 22	\$ 78,908	\$ 78,930
Accounts payable and accrued liabilities			20,821	20,821
Accounts payable to political subdivisions			3,822	3,822
Deferred revenue	\$ 495			495
Matured bonds and interest coupons payable	318	5		323
Total liabilities	813	27	103,551	104,391
Fund balances:				
Reserved for:				
Encumbrances			342,371	342,371
Loans and notes receivable.....	5,037		5,825	10,862
Debt service.....	6,153			6,153
Unreserved:				
Undesignated (deficit).....	54,751	2,381	(83,260)	(26,128)
Total fund balances	65,941	2,381	264,936	333,258
Total liabilities and fund balances.....	\$66,754	\$2,408	\$368,487	\$437,649

STATE OF MARYLAND

**Combining Statement of Revenues,
Expenditures, Other Sources and Uses of
Financial Resources and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2007**
(Expressed in Thousands)

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds			Funds
Revenues:				
Other taxes	\$556,358			\$ 556,358
Interest and other investment income	720	\$ 34	\$ 11,586	12,340
Other	317			317
Total revenues	557,395	34	11,586	569,015
Expenditures:				
Education			286,944	286,944
Aid to higher education			245,200	245,200
Intergovernmental grants and revenue sharing			235,960	235,960
Capital outlays			67,936	67,936
Debt service:				
Principal retirement	405,695	68,290		473,985
Interest	246,981	51,026		298,007
Bond issuance costs			1,282	1,282
Total expenditures	652,676	119,316	837,322	1,609,314
Deficiency of revenues under expenditures	(95,281)	(119,282)	(825,736)	(1,040,299)
Other sources (uses) of financial resources:				
Bonds issued			679,378	679,378
Bond premium	47,645	2,358	1,662	51,665
Transfers in	219	114,609	212,199	327,027
Transfers out	(16,000)		(30,081)	(46,081)
Total other sources of financial resources	31,864	116,967	863,158	1,011,989
Net changes in fund balances	(63,417)	(2,315)	37,422	(28,310)
Fund balances, beginning of the year	129,358	4,696	227,514	361,568
Fund balances, end of the year	\$ 65,941	\$ 2,381	\$264,936	\$ 333,258

Non-major Enterprise Funds

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The non-major enterprise funds consist of the economic development insurance programs of the Department of Housing and Community Development and Maryland Correctional Enterprises, which utilizes inmate labor from State correctional institutions to manufacture goods, wares and merchandise to be sold to State agencies, political subdivisions and charitable, civic, educational, fraternal or religious associations or institutions.

STATE OF MARYLAND

Combining Statement of Net Assets

Non-major Enterprise Funds

June 30, 2007

(Expressed in Thousands)

	Economic Development Insurance Programs	Maryland Correctional Enterprises	Total Non-major Enterprise Funds
Assets -			
Current assets:			
Cash and cash equivalent.....		\$ 10	\$ 10
Other accounts receivable.....		6,948	6,948
Due from other funds.....	\$111,920	9,346	121,266
Inventories.....		8,827	8,827
Loans and notes receivable, net.....	125		125
Other assets	73	89	162
Total current assets.....	112,118	25,220	137,338
Non-current assets:			
Investments	1,046		1,046
Loans and notes receivable, net.....	448		448
Capital assets, net of accumulated depreciation:			
Structures and improvements.....		498	498
Equipment		5,181	5,181
Infrastructure.....		78	78
Total non-current assets	1,494	5,757	7,251
Total assets	113,612	30,977	144,589
Liabilities -			
Current liabilities:			
Accounts payable and accrued liabilities	187	1,880	2,067
Accrued insurance on loan losses	6,174		6,174
Other liabilities.....	446	728	1,174
Unearned revenue.....	880	474	1,354
Total current liabilities	7,687	3,082	10,769
Non-current liabilities:			
Other liabilities.....	1,140	729	1,869
Total non-current liabilities.....	1,140	729	1,869
Total liabilities	8,827	3,811	12,638
Net Assets -			
Invested in capital assets, net of related debt.....		5,757	5,757
Restricted for insurance programs.....	107,860		107,860
Unrestricted (deficit)	(3,075)	21,409	18,334
Total net assets	\$104,785	\$27,166	\$131,951

STATE OF MARYLAND

**Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2007**

(Expressed in Thousands)

	Economic Development Insurance Programs	Maryland Correctional Enterprises	Total Non-major Enterprise Funds
Operating revenues:			
Charges for services and sales.....	\$ 1,718	\$48,070	\$ 49,788
Interest on loan income.....	562		562
Other	19		19
Total operating revenues	2,299	48,070	50,369
Operating expenses:			
Cost of sales and services		38,096	38,096
General and administrative.....	2,861	6,890	9,751
Depreciation and amortization		1,252	1,252
Reduction in provision for insurance on loan losses	(1,316)		(1,316)
Total operating expenses	1,545	46,238	47,783
Operating income	754	1,832	2,586
Non-operating revenues:			
Restricted investment income.....	5,472		5,472
Other		(48)	(48)
Total non-operating revenues.....	5,472	(48)	5,424
Income before transfers	6,226	1,784	8,010
Transfers in.....		44	44
Changes in net assets.....	6,226	1,828	8,054
Total net assets - beginning of the year	98,559	25,338	123,897
Total net assets - end of the year	\$104,785	\$27,166	\$131,951

STATE OF MARYLAND

Combining Statement of Cash Flows

Non-major Enterprise Funds

For the Year Ended June 30, 2007

(Expressed in Thousands)

	Economic Development Insurance Programs	Maryland Correctional Enterprises	Total Non-major Enterprise Funds
Cash flows from operating activities:			
Receipts from customers.....	\$ 1,575	\$47,826	\$ 49,401
Payments to suppliers		(32,727)	(32,727)
Payments to employees	(2,090)	(12,490)	(14,580)
Other payments.....	(4,957)	(1,202)	(6,159)
Net cash from operating activities	(5,472)	1,407	(4,065)
Cash flows from capital and related financing activities:			
Acquisition of capital assets.....		(1,407)	(1,407)
Net cash used in capital and related financing activities.....		(1,407)	(1,407)
Cash flows from investing activities:			
Interest on investments.....	5,472		5,472
Net cash from investing activities.....	5,472		5,472
Net change in cash and cash equivalents			
Balance - beginning of the year		10	10
Balance - end of the year	\$ -	\$ 10	\$ 10
Reconciliation of operating income to net cash from operating activities:			
Operating income	\$ 754	\$ 1,832	\$ 2,586
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization		1,252	1,252
Effect of changes in non-cash operating assets and liabilities:			
Other accounts receivable.....		(227)	(227)
Due from other funds.....	(5,491)	(1,202)	(6,693)
Inventories.....		(1,047)	(1,047)
Loans and notes receivable.....	17		17
Other assets	757	13	770
Accounts payable and accrued liabilities	(3)	455	452
Accrued insurance on loan losses	(1,327)		(1,327)
Unearned revenue.....	(132)	(18)	(150)
Other liabilities.....	(47)	349	302
Net cash from operating activities.....	\$ (5,472)	\$ 1,407	\$ (4,065)

Fiduciary Funds

The Pension and Other Employee Benefits Trust Funds include the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Funds reflect the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and are accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.

The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

STATE OF MARYLAND

Combining Statement of Fiduciary Net Assets

Pension and Other Employee Benefits Trust Funds

June 30, 2007

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan December 31, 2006	Total
Assets:				
Cash and cash equivalents.....	\$ 1,530,437	\$ 765	\$ 4,478	\$ 1,535,680
Investments:				
U.S. Treasury and agency obligations	889,246	4,200		893,446
Bonds	1,785,567	27,786		1,813,353
Corporate equity securities.....	9,120,386	84,383		9,204,769
Mortgage related securities.....	2,752,682	8,917		2,761,599
Mutual funds	21,308,556		1,621,266	22,929,822
Guaranteed investment contracts			600,938	600,938
Real estate.....	985,755	3,084		988,839
Annuity contracts	384,666		141,619	526,285
Investments held by borrowers under securities lent with cash collateral.....	1,842,401			1,842,401
Total investments	39,069,259	128,370	2,363,823	41,561,452
Other receivables	712,892	1,562	16,525	730,979
Collateral for lent securities	1,897,331			1,897,331
Total assets	43,209,919	130,697	2,384,826	45,725,442
Liabilities:				
Accounts payable and accrued liabilities	1,867,807	1,562	54	1,869,423
Collateral obligation for lent securities.....	1,897,331			1,897,331
Total liabilities	3,765,138	1,562	54	3,766,754
Net assets:				
Held in trust for:				
Pension benefits	39,444,781	129,135		39,573,916
Deferred compensation benefits.....			2,384,772	2,384,772
Total net assets	\$39,444,781	\$129,135	\$2,384,772	\$41,958,688

STATE OF MARYLAND

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefits Trust Funds
For the Year Ended June 30, 2007

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan December 31, 2006	Total
Additions:				
Contributions:				
Employers.....	\$ 358,417	\$ 20,872	\$ 17,986	\$ 397,275
Members	319,274		157,201	476,475
Sponsors	475,365			475,365
Total contributions	1,153,056	20,872	175,187	1,349,115
Investment earnings:				
Net appreciation in fair value of investments ..	5,408,216	10,292	180,809	5,599,317
Interest	448,139	9,106	35,825	493,070
Dividends	211,887			211,887
Real estate operating net earnings	30,806			30,806
Net change in annuity reserves.....			3,594	3,594
Total investment income.....	6,099,048	19,398	220,228	6,338,674
Less investment expense.....	174,978			174,978
Net investment income	5,924,070	19,398	220,228	6,163,696
Total additions.....	7,077,126	40,270	395,415	7,512,811
Deductions:				
Benefit payments	1,965,872	18,958	142,541	2,127,371
Refunds	16,021			16,021
Administrative expenses.....	21,271	273	6,355	27,899
Total deductions	2,003,164	19,231	148,896	2,171,291
Changes in net assets.....	5,073,962	21,039	246,519	5,341,520
Net assets held in trust for pension and other employee benefits:				
Beginning of the year.....	34,370,819	108,096	2,138,253	36,617,168
End of the year	\$39,444,781	\$129,135	\$2,384,772	\$41,958,688

STATE OF MARYLAND

Combining Schedule of Fiduciary Net Assets

Retirement and Pension System of Maryland

June 30, 2007

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Total
Assets:									
Cash and cash equivalents.....	\$ 899,404	\$ 513,045	\$ 28,002	\$ 71,727	\$ 802	\$ 17,457	\$ 1,530,437		\$ 1,530,437
Investments, at fair value	23,617,157	13,422,942	283,914	1,323,971	3,922	417,353	39,069,259		39,069,259
Other receivables	390,935	287,084	4,708	22,308	67	7,790	712,892		712,892
Due from other systems.....	552					631	1,183	\$(1,183)	
Collateral for lent securities	1,146,340	652,347	13,781	64,423	181	20,259	1,897,331		1,897,331
Total assets.....	26,054,388	14,875,418	330,405	1,482,429	4,972	463,490	43,211,102	(1,183)	43,209,919
Liabilities:									
Accounts payable and accrued liabilities	1,129,499	641,107	13,685	63,421	184	19,911	1,867,807		1,867,807
Due to other systems	550	632				1	1,183	(1,183)	
Collateral obligation for lent securities.....	1,146,340	652,347	13,781	64,423	181	20,259	1,897,331		1,897,331
Total liabilities	2,276,389	1,294,086	27,466	127,844	365	40,171	3,766,321	(1,183)	3,765,138
Net Assets:									
Held in trust for pension benefits.....	\$23,777,999	\$13,581,332	\$302,939	\$1,354,585	\$4,607	\$423,319	\$39,444,781	\$ -	\$39,444,781

* Intersystem due from/due to have been eliminated in the financial statements.

STATE OF MARYLAND

Combining Schedule of Changes in Plan Net Assets Retirement and Pension System of Maryland For the Year Ended June 30, 2007

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Total
Additions:									
Contributions:									
Employers.....	\$ 13,403	\$ 271,418	\$ 15,792	\$ 11,560	\$ 515	\$ 45,729	\$ 358,417	\$	\$ 358,417
Members	177,746	122,651	1,667	6,676		10,534	319,274		319,274
Sponsors	471,221	3,999	145				475,365		475,365
Total contributions	662,370	398,068	17,604	18,236	515	56,263	1,153,056		1,153,056
Investment earnings:									
Net increase in fair value of investments									
Interest	3,267,680	1,860,263	39,892	186,082	481	53,818	5,408,216		5,408,216
Dividends	268,603	153,097	4,139	17,451	106	4,743	448,139		448,139
Real estate operating net earnings	128,005	72,860	1,562	7,337	19	2,104	211,887		211,887
Total investment income.....	18,634	10,572	229	1,073	3	295	30,806		30,806
Less investment expense.....	3,682,922	2,096,792	45,822	211,943	609	60,960	6,099,048		6,099,048
Net investment income.....	105,572	60,251	1,289	6,102	16	1,748	174,978		174,978
Transfers from other systems.....	3,577,350	2,036,541	44,533	205,841	593	59,212	5,924,070		5,924,070
Total additions.....	3,704	281	46	6	6	(1,009)	3,028	\$(3,028)	
	4,243,424	2,434,890	62,137	224,123	1,114	114,466	7,080,154	(3,028)	7,077,126
Deductions:									
Benefit payments.....	1,186,254	656,412	20,223	78,965	277	23,741	1,965,872		1,965,872
Refunds.....	7,008	8,347	4	482		180	16,021		16,021
Administrative expenses.....	11,089	9,772	31	155	6	218	21,271		21,271
Transfers to other systems	2,592	393	1	10		32	3,028	(3,028)	
Total deductions	1,206,943	674,924	20,259	79,612	283	24,171	2,006,192	(3,028)	2,003,164
Changes in net assets.....	3,036,481	1,759,966	41,878	144,511	831	90,295	5,073,962		5,073,962
Net assets held in trust for pension benefits:									
Beginning of the year	20,741,518	11,821,366	261,061	1,210,074	3,776	333,024	34,370,819		34,370,819
End of the year	\$23,777,999	\$13,581,332	\$302,939	\$1,354,585	\$4,607	\$423,319	\$39,444,781	\$ -	\$39,444,781

* Intersystem transfers have been eliminated in the financial statements.

STATE OF MARYLAND

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2007

(Expressed in Thousands)

	Agency Funds					
	Local Income Taxes	Insurance Premium Taxes	Local Transportation Funds and Other Taxes	Payroll Taxes and Fringe Benefits	Litigant, Patient and Prisoner Accounts	Total Agency Funds
Assets:						
Cash and cash equivalents.....		\$ 10	\$ 2,950		\$88,356	\$ 91,316
Taxes receivable, net	\$ 219,901					219,901
Accounts receivable from state treasury.....	1,516,569	72,634	63,846	\$229		1,653,278
Other receivables		2,455				2,455
Total assets	\$1,736,470	\$75,099	\$66,796	\$229	\$88,356	\$1,966,950
Liabilities:						
Accounts payable and accrued liabilities ...		\$75,099	\$ 2,950	\$229	\$86,652	\$ 164,930
Accounts payable to political subdivisions	\$1,736,470		63,846		1,704	1,802,020
Total liabilities	\$1,736,470	\$75,099	\$66,796	\$229	\$88,356	\$1,966,950

STATE OF MARYLAND

Combining Statement of Changes in Assets and Liabilities – Agency Funds For the Year Ended June 30, 2007

(Expressed in Thousands)

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
<i>Litigant, Patient and Prisoner Accounts</i>				
Assets:				
Cash and cash equivalents.....	\$ 66,229	\$ 192,194	\$ 170,067	\$ 88,356
Liabilities:				
Accounts payable and accrued liabilities	\$ 64,417	\$ 191,990	\$ 169,755	\$ 86,652
Accounts payable to political subdivisions	1,812	204	312	1,704
Total liabilities	\$ 66,229	\$ 192,194	\$ 170,067	\$ 88,356
<i>Insurance Premium Taxes</i>				
Assets:				
Cash and cash equivalents.....	\$ 10			\$ 10
Accounts receivable from state treasury	67,698	\$ 30,372	\$ 25,436	72,634
Other receivables	2,350	105		2,455
Total assets.....	\$ 70,058	\$ 30,477	\$ 25,436	\$ 75,099
Liabilities:				
Accounts payable and accrued liabilities	\$ 70,058	\$ 30,477	\$ 25,436	\$ 75,099
<i>Local Income Taxes</i>				
Assets:				
Taxes receivable	\$ 210,269	\$ 86,581	\$ 76,949	\$ 219,901
Accounts receivable from state treasury	1,480,180	4,184,531	4,148,142	1,516,569
Total assets.....	\$1,690,449	\$4,271,112	\$4,225,091	\$1,736,470
Liabilities:				
Accounts payable to state treasury.....	\$ 154,219		\$ 154,219	\$ –
Accounts payable to political subdivisions	1,536,230	\$4,271,112	4,070,872	1,736,470
Total liabilities	\$1,690,449	\$4,271,112	\$4,225,091	\$1,736,470
<i>Local Transportation Funds and Other Taxes</i>				
Assets:				
Cash and cash equivalents.....	\$ 2,757	\$ 32,268	\$ 32,075	\$ 2,950
Accounts receivable from state treasury	44,552	130,069	110,775	63,846
Total assets.....	\$ 47,309	\$ 162,337	\$ 142,850	\$ 66,796
Liabilities:				
Accounts payable and accrued liabilities	\$ 2,757	\$ 32,268	\$ 32,075	\$ 2,950
Accounts payable to political subdivisions	44,552	130,069	110,775	63,846
Total liabilities	\$ 47,309	\$ 162,337	\$ 142,850	\$ 66,796
<i>Payroll Taxes and Fringe Benefits</i>				
Assets:				
Accounts receivable from state treasury	\$ 684	\$1,250,707	\$1,251,162	\$ 229
Liabilities:				
Accounts payable and accrued liabilities	\$ 684	\$1,250,707	\$1,251,162	\$ 229
<i>Totals - All Agency Funds</i>				
Assets:				
Cash and cash equivalents.....	\$ 68,996	\$ 224,462	\$ 202,142	\$ 91,316
Taxes receivable	210,269	86,581	76,949	219,901
Accounts receivable from state treasury	1,593,114	5,595,679	5,535,515	1,653,278
Other receivables	2,350	105		2,455
Total assets.....	\$1,874,729	\$5,906,827	\$5,814,606	\$1,966,950
Liabilities:				
Accounts payable to state treasury.....	\$ 154,219		\$ 154,219	\$ –
Accounts payable and accrued liabilities	137,916	\$1,505,442	1,478,428	164,930
Accounts payable to political subdivisions	1,582,594	4,401,385	4,181,959	1,802,020
Total liabilities	\$1,874,729	\$5,906,827	\$5,814,606	\$1,966,950

Component Unit Financial Statements

Non-major Component Units

Non-major component units are comprised of the following proprietary fund type entities.

Maryland Environmental Service

The Maryland Environmental Service was created as a body corporate and politic. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

Maryland Industrial Development Financing Authority

The Maryland Industrial Development Financing Authority was established as a body corporate and politic and a public instrumentality of the State to provide financial assistance to enterprises seeking to locate or expand operations in Maryland.

Maryland Food Center Authority

The Maryland Food Center Authority is a body corporate and politic which was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

Maryland Technology Development Corporation

The Maryland Technology Development Corporation was established as a body corporate and politic and a public instrumentality of the State to assist in the commercialization of technology developed in the universities and the private sector. The Corporation administers the Maryland Technology Incubator Program and the Maryland Stem Cell Research Fund.

STATE OF MARYLAND

Combining Statement of Net Assets

Non-major Component Units

June 30, 2007

(Expressed in Thousands)

	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Maryland Technology Development Corporation	Total Non-major Component Units
Assets:					
Cash and cash equivalents.....	\$11,065		\$ 3	\$1,941	\$ 13,009
Investments	9,759			7,154	16,913
Other accounts receivable.....	13,589		542	589	14,720
Due from primary government.....		\$39,192	3,204		42,396
Loans and notes receivable, net.....				174	174
Investments in direct financing leases.....	8,692				8,692
Other assets	5,685		18	57	5,760
Restricted assets:					
Investments	11,582				11,582
Capital assets, net of accumulated depreciation:					
Land	1,070		5,103		6,173
Structures and improvements.....	4,141		13,860		18,001
Infrastructure.....	1,087				1,087
Equipment	9,392		602	76	10,070
Construction in progress.....	4,868		250		5,118
Total assets	80,930	39,192	23,582	9,991	153,695
Liabilities:					
Accounts payable and accrued liabilities ...	16,363		169	2,888	19,420
Unearned revenue.....		102	161	2,695	2,958
Accrued insurance on loan losses		1,920			1,920
Other liabilities.....			228		228
Bonds and notes payable:					
Due within one year	1,310				1,310
Due in more than one year	10,593				10,593
Other noncurrent liabilities:					
Due within one year	18,870		79		18,949
Due in more than one year	20,657		50		20,707
Total liabilities	67,793	2,022	687	5,583	76,085
Net Assets:					
Invested in capital assets, net of related debt.....	13,225		19,816	76	33,117
Restricted for capital improvements and deposits.....	7		251		258
Unrestricted (deficit)	(95)	37,170	2,828	4,332	44,235
Total net assets.....	\$13,137	\$37,170	\$22,895	\$4,408	\$ 77,610

STATE OF MARYLAND

Combining Statement of Activities

Non-major Component Units

For the Year Ended June 30, 2007

(Expressed in Thousands)

	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Maryland Technology Development Corporation	Total
Expenses:					
General and administrative.....	\$ 9,449	\$ 1,270	\$ 1,175	\$ 614	\$ 12,508
Operation and maintenance of facilities.....	85,072	81	2,034	4,672	91,859
Reduction in provision for insurance on loan losses, net.....		(427)			(427)
Interest on long-term debt.....	1,388				1,388
Depreciation and amortization	2,798		672	35	3,505
Other	182				182
Total expenses.....	98,889	924	3,881	5,321	109,015
Program revenues:					
Charges for services and sales.....	99,133	509	4,213	593	104,448
Restricted investment income.....	701				701
Total charges for services.....	99,834	509	4,213	593	105,149
Operating grants and contributions.....	8			7,009	7,017
Capital grants and contributions	1,114			2,013	3,127
Total program revenues.....	100,956	509	4,213	9,615	115,293
Net program revenue (expense).....	2,067	(415)	332	4,294	6,278
General revenues:					
Unrestricted investment income	398	2,046	394	114	2,952
Total general revenues.....	398	2,046	394	114	2,952
Changes in net assets.....	2,465	1,631	726	4,408	9,230
Net assets - beginning of the year.....	10,672	35,539	22,169		68,380
Net assets - end of the year.....	\$ 13,137	\$37,170	\$22,895	\$4,408	\$ 77,610

State of Maryland

STATISTICAL SECTION

Statistical Section

This part of the State’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State’s economic condition.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the State’s financial position and well-being have changed over time..... 111

Revenue Capacity

These schedules contain information to help the reader assess the State’s most significant own-source revenues..... 118

Debt Capacity

These schedules present information to help the reader assess the affordability of the State’s current levels of outstanding debt and the State’s ability to issue additional debt in the future..... 123

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the State’s financial activities take place. 128

Operating Information

These schedules contain service data to help the reader understand how the information in the State’s financial report relates to the services the State provides and the activities it performs. 131

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement No. 34 in 2002. The schedules presenting government-wide information include information beginning in that year.

STATE OF MARYLAND

Net Assets by Component, Primary Government

Last Six Fiscal Years*

(accrual basis of accounting)

(Expressed in Thousands)

	Year ended June 30,					
	2007	2006	2005	2004	2003	2002
Governmental activities:						
Invested in capital assets, net of related debt.....	\$13,853,102	\$13,405,751	\$12,940,305	\$11,937,207	\$11,943,249	\$11,016,638
Restricted**	88,808	149,621	145,607	114,327	75,478	70,558
Unrestricted (deficit).....	(559,318)	140,553	(668,169)	(1,046,233)	(1,239,572)	406,557
Total governmental activities net assets	\$13,382,592	\$13,695,925	\$12,417,743	\$11,005,301	\$10,779,155	\$11,493,753
Business-type activities:						
Invested in capital assets, net of related debt.....	\$ 1,613,891	\$ 1,303,668	\$ 1,217,923	\$ 1,331,400	\$ 1,231,338	\$ 1,217,578
Restricted.....	1,835,767	1,901,771	1,828,027	1,556,170	1,518,996	1,378,025
Unrestricted	1,725,338	1,670,224	1,450,868	1,197,542	1,208,954	1,610,282
Total business-type activities net assets.....	\$ 5,174,996	\$ 4,875,663	\$ 4,496,818	\$ 4,085,112	\$ 3,959,288	\$ 4,205,885
Primary government:						
Invested in capital assets, net of related debt.....	\$15,466,993	\$14,709,419	\$14,158,228	\$13,268,607	\$13,174,587	\$12,234,216
Restricted.....	1,924,575	2,051,392	1,973,634	1,670,497	1,594,474	1,448,583
Unrestricted (deficit)	1,166,020	1,810,777	782,699	151,309	(30,618)	2,016,839
Total primary government net assets.....	\$18,557,588	\$18,571,588	\$16,914,561	\$15,090,413	\$14,738,443	\$15,699,638

*Information for fiscal years prior to fiscal year ended June 30, 2002, is not available.

**Information for fiscal years prior to fiscal year ended June 30, 2006 has been restated to reflect reclassifications of certain restricted and unrestricted balances.

Changes in Net Assets Last Six Fiscal Years*

(accrual basis of accounting)
(Expressed in Thousands)

	Year ended June 30,					
	2007	2006	2005	2004	2003	2002
Governmental activities (1):						
Expenses	\$24,691,358	\$22,326,398	\$21,203,763	\$20,382,202	\$19,588,410	\$ 18,234,226
Program revenues	8,669,565	8,073,911	7,948,502	7,941,822	7,221,988	6,579,856
Net (expense)/revenue, governmental activities.....	(16,021,793)	(14,252,487)	(13,255,261)	(12,440,380)	(12,366,422)	(11,654,370)
General revenues and other changes, governmental activities.....	15,708,460	15,530,669	14,667,703	12,592,202	11,651,824	11,209,102
Change in net assets, governmental activities	(313,333)	1,278,182	1,412,442	151,822	(714,598)	(445,268)
Net assets, beginning.....	13,695,925	12,417,743	11,005,301	10,779,155	11,493,753	3,371,858
Restatement (2)				74,324		8,567,163
Net assets, ending, governmental activities	\$13,382,592	\$13,695,925	\$12,417,743	\$11,005,301	\$10,779,155	\$11,493,753
Business-type activities (1):						
Expenses.....	\$ 2,204,570	\$ 2,018,125	\$ 1,980,350	\$ 2,038,850	\$ 2,191,318	\$ 1,960,333
Program revenues	2,822,801	2,850,386	2,755,686	2,594,808	2,339,895	2,097,340
Net (expense)/revenue, business-type activities	618,231	832,261	775,336	555,958	148,577	137,007
General revenues and other changes, business-type activities	(318,898)	(453,416)	(396,571)	(430,134)	(395,174)	(99,232)
Change in net assets, business-type activities	299,333	378,845	378,765	125,824	(246,597)	37,775
Net assets, beginning.....	4,875,663	4,496,818	4,085,112	3,959,288	4,205,885	2,995,032
Restatement (2)			32,941			1,173,078
Net assets, ending, business-type activities.....	\$ 5,174,996	\$ 4,875,663	\$ 4,496,818	\$ 4,085,112	\$ 3,959,288	\$ 4,205,885
Primary government:						
Expenses.....	\$26,895,928	\$24,344,523	\$23,184,113	\$22,421,052	\$21,779,728	\$ 20,194,559
Program revenues	11,492,366	10,924,297	10,704,188	10,536,630	9,561,883	8,677,196
Net (expense)/revenue, primary government	(15,403,562)	(13,420,226)	(12,479,925)	(11,884,422)	(12,217,845)	(11,517,363)
General revenues and other changes, primary government.....	15,389,562	15,077,253	14,271,132	12,162,068	11,256,650	11,109,870
Change in net assets, primary government.....	(14,000)	1,657,027	1,791,207	277,646	(961,195)	(407,493)
Net assets, beginning.....	18,571,588	16,914,561	15,090,413	14,738,443	15,699,638	6,366,890
Restatement			32,941	74,324		9,740,241
Net assets, ending, primary government	\$18,557,588	\$18,571,588	\$16,914,561	\$15,090,413	\$14,738,443	\$15,699,638

*Information for fiscal years prior to fiscal year ended June 30, 2002 is not available.

(1) See the Expenses by Function, Primary Government and Revenues, Primary Government schedules for detail information on expenses and revenues.

(2) The beginning fund balances for fiscal year 2002 were restated due to implementation of GASB Statement No. 34 and for fiscal year 2004 due to implementation of GASB Technical Bulletin No. 2004-1. The beginning fund balance for fiscal year 2005 was restated for a change in accounting principles regarding the valuation of investments by the State Lottery Agency. Prior years' balances were not restated.

STATE OF MARYLAND

Expenses by Function, Primary Government Last Six Fiscal Years*

(accrual basis of accounting)

(Expressed in Thousands)

Functions/Programs	Year ended June 30,					
	2007	2006	2005	2004	2003	2002
Governmental activities:						
General government.....	\$ 712,936	\$ 693,074	\$ 747,486	\$ 598,116	\$ 665,133	\$ 610,560
Health and mental hygiene.....	7,400,023	6,588,057	6,202,439	6,090,102	5,592,272	4,908,418
Education.....	6,469,864	5,701,642	5,180,165	4,871,972	4,229,670	4,124,255
Aid for higher education**	1,299,090	1,103,514	1,074,048	1,081,099	1,554,955	1,536,851
Human resources.....	1,647,583	1,622,945	1,595,093	1,586,022	1,633,461	1,536,124
Public safety	1,852,861	1,674,995	1,498,684	1,398,017	1,338,202	1,194,952
Transportation.....	2,913,259	2,382,539	1,912,602	1,839,205	1,694,321	1,630,724
Judicial	541,713	506,787	476,253	439,576	429,302	408,571
Labor, licensing and regulation.....	168,022	157,675	170,344	175,551	182,584	173,625
Natural resources and recreation.....	166,751	181,682	184,599	169,791	168,107	149,372
Housing and community development.....	229,008	217,544	212,753	202,278	203,946	168,595
Environment.....	92,977	84,973	78,238	85,382	95,079	87,432
Agriculture.....	59,294	56,706	55,985	46,427	85,426	64,395
Business and economic development.....	66,405	57,093	58,127	58,666	43,387	55,570
Intergovernmental grants.....	738,973	979,450	1,453,408	1,461,133	1,422,007	1,375,043
Interest.....	332,599	317,722	303,539	278,865	250,558	209,739
Total governmental activities expenses	24,691,358	22,326,398	21,203,763	20,382,202	19,588,410	18,234,226
Business-type activities:						
Economic development - insurance programs.....	1,545	11	(132)	(4,911)	2,938	5,262
Economic development - general loan programs.....	181,394	19,129	31,010	53,237	48,633	69,381
Economic development - water quality loan programs.....	8,465	26,045	10,574	11,348	11,510	11,892
Economic development - housing loan programs.....	58,816	131,420	138,723	135,717	213,404	210,469
Unemployment insurance program.....	445,877	403,776	432,125	581,634	633,904	550,345
Maryland State Lottery.....	1,094,065	1,061,295	1,005,275	927,941	883,736	867,910
Maryland Transportation Authority.....	368,170	334,905	324,838	300,072	359,015	205,831
Maryland Correctional Enterprises.....	46,238	41,544	37,937	33,812	38,178	39,243
Total business-type activities expenses.....	2,204,570	2,018,125	1,980,350	2,038,850	2,191,318	1,960,333
Total primary government expenses.....	\$26,895,928	\$24,344,523	\$23,184,113	\$22,421,052	\$21,779,728	\$20,194,559

*Information for fiscal years prior to fiscal year ended June 30, 2002 is not available.

**Information for fiscal years 2002 & 2003 has been restated to reflect reclassification of certain expenditures.

STATE OF MARYLAND

Revenues, Primary Government Last Six Fiscal Years*

(accrual basis of accounting)

(Expressed in Thousands)

	Year ended June 30,					
	2007	2006	2005	2004	2003	2002
Governmental activities:						
Program revenues:						
Charges for services:						
General government.....	\$ 424,639	\$ 301,119	\$ 484,933	\$ 349,078	\$ 325,115	\$ 238,480
Health and mental hygiene.....	417,753	353,211	320,596	289,988	224,300	191,164
Transportation.....	643,447	583,346	580,691	716,422	526,253	615,261
Judicial.....	403,697	415,925	384,985	384,215	276,787	291,546
Other activities.....	327,765	303,259	298,033	277,720	303,190	271,176
Operating grants and contributions.....	5,725,441	5,323,300	5,091,053	5,204,906	4,843,927	4,225,374
Capital grants and contributions	726,823	793,751	788,211	719,493	722,416	746,855
Total program revenues	8,669,565	8,073,911	7,948,502	7,941,822	7,221,988	6,579,856
General revenues:						
Taxes:						
Income taxes	7,333,979	7,119,633	6,829,564	5,518,813	5,107,593	4,913,185
Sales and use taxes	3,448,766	3,385,391	3,149,736	2,944,534	2,719,547	2,690,099
Motor vehicle taxes.....	1,982,329	1,983,439	2,031,862	1,792,769	1,693,736	1,660,994
Other taxes.....	2,243,581	2,332,968	2,105,362	1,852,418	1,545,013	1,413,307
Unrestricted investment earnings.....	350,249	251,388	130,359	48,134	62,611	109,065
Special items.....					114,200	25,628
Transfers.....	349,556	457,850	420,820	435,534	409,124	396,824
Total general revenues, special items and transfers.....	15,708,460	15,530,669	14,667,703	12,592,202	11,651,824	11,209,102
Total revenues, transfers and special items - governmental activities.....	24,378,025	23,604,580	22,616,205	20,534,024	18,873,812	17,788,958
Business-type activities:						
Program revenues:						
Charges for services:						
Unemployment insurance program	464,411	541,386	590,805	528,238	341,004	254,483 **
Maryland State Lottery.....	1,577,311	1,560,906	1,485,733	1,395,408	1,322,239	1,306,538
Maryland Transportation Authority	371,468	404,446	359,157	280,098	242,429	189,658
Other activities	333,621	274,918	242,337	203,462	257,859	337,536 **
Operating grants and contributions.....	25,995	27,020	26,206	129,991	136,113	234,993

Capital grants and contributions	49,995	41,710	51,448	57,611	40,251	53,701
Total program revenues	2,822,801	2,850,386	2,755,686	2,594,808	2,339,895	2,376,909
General revenues:						
Unrestricted investment earnings.....	30,658	4,434	24,249	5,400	13,950	18,023 **
Transfers.....	(349,556)	(457,850)	(420,820)	(435,534)	(409,124)	(396,824)
Total general revenues and transfers.....	(318,898)	(453,416)	(396,571)	(430,134)	(395,174)	(378,801)
Total revenues and transfers - business-type activities.....	2,503,903	2,396,970	2,359,115	2,164,674	1,944,721	1,998,108
Total primary government revenues, special items, and transfers	\$26,881,928	\$26,001,550	\$24,975,320	\$22,698,698	\$20,818,533	\$19,787,066

*Information for fiscal years prior to the fiscal year ended June 30, 2002, is not available.

**Information for fiscal year 2002 has been restated to reflect reclassification of certain revenues.

STATE OF MARYLAND **Fund Balances, Governmental Funds** **Last Ten Fiscal Years** (modified accrual basis of accounting) (Expressed in Thousands)

	Year ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Fund:										
Reserved.....	\$2,373,711	\$1,490,670	\$1,537,565	\$1,362,310	\$1,295,012	\$1,368,973	\$1,467,309	\$1,072,483	\$1,175,393	\$1,062,223
Unreserved (deficit)	885,256	2,041,884	1,084,392	127,127	(110,344)	265,468	989,296	1,297,584	802,572	532,969
Total general fund	3,258,967	3,532,554	2,621,957	1,489,437	1,184,668	1,634,441	2,456,605	2,370,067	1,977,965	1,595,192
All Other Governmental Funds:										
Reserved.....	523,796	599,016	563,511	588,190	554,714	615,866	566,430	472,225	507,288	485,012
Unreserved, reported in:										
Special revenue funds	162,627	219,737	173,094	199,289	135,710	134,470	400,957	418,314	243,757	315,546
Capital projects funds (1)	(83,260)	(196,454)	(297,322)	(425,038)	(163,001)	(156,587)	222,161	(27,397)	119,510	(80,848)
Debt service funds.....	57,132	122,456	115,833	73,268	30,815	25,916	117,127	98,550	100,130	114,529
Total all other governmental funds.....	660,295	744,755	555,116	435,709	558,238	619,665	1,306,675	961,692	970,685	834,239
Total governmental funds.....	\$3,919,262	\$4,277,309	\$3,177,073	\$1,925,146	\$1,742,906	\$2,254,106	\$3,763,280	\$3,331,759	\$2,948,650	\$2,429,431

(1) The unreserved fund balance deficit of the capital projects fund will be funded by future bond proceeds and capital appropriations of the general fund.

STATE OF MARYLAND

Changes in Fund Balances, Governmental Funds,

Last Ten Fiscal Years

(modified accrual basis of accounting)

(Expressed in Thousands)

	Year ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenues:										
Income taxes	\$ 7,325,181	\$ 7,108,573	\$ 6,814,378	\$ 5,499,953	\$ 5,080,359	\$ 4,911,807	\$ 5,741,664	\$ 5,223,740	\$ 4,845,406	\$ 4,491,384
Retail sales and use taxes.....	3,447,896	3,382,851	3,153,676	2,945,060	2,717,383	2,689,567	2,646,103	2,497,531	2,299,266	2,161,158
Motor vehicle taxes and fees	1,982,329	1,983,439	2,031,862	1,792,769	1,693,736	1,660,994	1,577,714	1,570,433	1,507,898	1,426,340
Other taxes.....	2,243,581	2,332,968	2,105,362	1,852,417	1,545,013	1,413,307	1,453,179	1,366,807	1,203,907	1,149,092
Other licenses and fees	782,712	808,617	759,953	754,995	544,456	610,009	450,768	459,063	328,442	289,414
Charges for services	1,050,187	970,345	978,535	1,044,636	775,852	814,332	875,717	793,722	758,698	737,099
Revenues pledged as security for bonds.....	70,563	70,593	70,875	52,255	69,108	41,161 (1)				
Interest and other investment income	315,121	219,609	102,532	32,251	51,304	108,214	288,936	193,897	174,945	151,443
Federal	6,407,172	6,118,583	5,916,233	5,872,371	5,506,539	4,931,908	4,451,010	3,973,662	3,681,692	3,509,817
Other	240,671	108,689	331,224	162,748	261,226	153,510	126,379	99,482	164,922	134,829
Total revenues.....	23,865,413	23,104,267	22,264,630	20,009,455	18,244,976	17,334,809	17,611,470	16,178,337	14,965,176	14,050,576
Expenditures:										
Current:										
General government.....	716,958	738,472	703,466	627,626	640,205	627,367	586,812	546,049	495,028	427,482
Education.....	7,683,885	6,758,158	6,235,534	5,919,742	5,779,552	5,675,065	3,888,180	3,626,739	3,440,054	3,239,233
Business and economic development.....	65,774	56,374	57,287	58,259	43,441	55,418	55,952	54,593	50,344	45,083
Labor, licensing and regulation.....	164,255	154,607	166,787	174,047	181,835	174,725	177,196	183,363	158,192	148,980
Human resources.....	1,643,078	1,622,922	1,569,032	1,560,876	1,614,493	1,536,780	1,456,484	1,341,603	1,285,650	1,317,365
Health and mental hygiene.....	7,252,117	6,547,288	6,329,383	6,064,735	5,545,991	4,893,824	4,483,159	3,956,048	3,599,677	3,255,961
Environment.....	92,460	83,793	76,393	84,443	95,500	87,447	78,960	73,910	68,119	60,973
Transportation.....	1,219,507	1,121,714	1,273,622	1,143,520	1,123,911	1,103,756	1,070,893	1,007,331	979,560	859,460
Public safety	1,790,595	1,606,314	1,435,406	1,357,943	1,326,612	1,265,624	1,533,283	1,435,979	1,349,764	1,202,632
Judicial	527,618	490,861	462,568	434,135	421,702	407,079 (2)				
Housing and community development.....	228,105	215,940	211,577	202,346	205,501	168,580	121,602	103,804	106,604	97,661
Natural resources and recreation...	177,553	165,439	167,018	166,730	175,845	167,160	150,850	147,179	131,541	122,113
Agriculture	101,252	64,044	56,624	60,537	83,384	91,562	75,990	59,552	53,078	42,202
Intergovernmental.....	1,590,590	1,562,539	1,453,408	1,461,133	1,422,007	1,375,043	1,336,429	1,186,985	1,151,315	1,109,755

Debt service:										
Principal.....	473,985	485,635	464,650	424,925	421,859	406,850	397,581	406,047	374,882	364,154
Interest.....	298,007	280,278	258,791	247,027	203,701	202,834	220,466	234,840	228,748	229,148
Capital outlays	1,437,741	1,538,927	1,531,461	1,461,067	1,464,110	1,415,740	1,343,570	1,121,889	1,106,875	1,044,187
Total expenditures	25,463,480	23,493,305	22,453,007	21,449,091	20,749,649	19,654,854	16,977,407	15,485,911	14,579,431	13,566,389
Excess (deficiency) of revenues over expenditures.....	(1,598,067)	(389,038)	(188,377)	(1,439,636)	(2,504,673)	(2,320,045)	634,063	692,426	385,745	484,187
Other financing sources (uses):										
Capital leases	56,860	121,197	154,434	145,455	101,814	44,294	70,793	54,489	100,001	117,234
Proceeds from bond issues	831,193	904,907	937,480	898,818	1,196,199	615,846	422,890	202,417	483,805	514,190
Other long-term liabilities	2,411	5,320	12,321	142,015	171,239	119,460		20,000		
Proceeds from refunding bonds			855,840	83,591	685,594	117,458				113,340
Payments to escrow agents.....			(940,591)	(83,537)	(684,697)	(117,217)				(113,661)
Transfers in.....	1,137,421	1,133,853	1,063,529	1,111,330	1,244,595	1,453,353	1,644,746	1,321,917	1,179,676	1,020,788
Transfers out.....	(787,865)	(676,003)	(642,709)	(675,796)	(835,471)	(1,056,529)	(1,302,866)	(991,248)	(806,851)	(670,151)
Transfers to component units					(835,471)	(1,056,529)	(3) (1,038,105)	(916,892)	(823,157)	(773,035)
Net other sources (uses) of financial resources	1,240,020	1,489,274	1,440,304	1,621,876	1,879,273	1,176,665	(202,542)	(309,317)	133,474	208,705
Special items.....					114,200	25,628 (4)				
Net changes in fund balances	(358,047)	1,100,236	1,251,927	182,240	(511,200)	(1,117,752)	431,521	383,109	519,219	692,892
Fund balance, beginning of the year....	4,277,309	3,177,073	1,925,146	1,742,906	2,254,106	3,763,280	3,331,759	2,948,650	2,429,431	1,736,539
Adjustments.....						(391,422)(5)				
Fund balance, end of the year.....	\$3,919,262	\$4,277,309	\$3,177,073	\$1,925,146	\$1,742,906	\$2,254,106	\$3,763,280	\$3,331,759	\$2,948,650	\$2,429,431
Debt service as a percentage of noncapital expenditures.....										
	3.2%	3.5%	3.5%	3.4%	3.3%	3.4%	4.0%	4.5%	4.5%	4.7%

(1) These revenues were previously recorded as Federal revenue.

(2) These expenditures were previously included in public safety.

(3) Effective July 1, 2001, all transactions between the primary government and component units are treated as revenues and expenses.

(4) Includes certain one-time transfers from organizations outside the primary government.

(5) Effective July 1, 2001, the beginning fund balance was restated for inventory. Also, the Maryland Transportation Authority's activities were no longer recorded in the special revenue and debt service funds, and its beginning equity was reclassified from the respective governmental funds to the enterprise funds.

STATE OF MARYLAND

Personal Income Tax Filers by Subdivision

Tax Year Ended December 31, 2006

(Dollars Expressed in Thousands)

Subdivision	Number of Filers	Adjusted Gross Income	Net Taxable Income	State Income Tax(1)	Local Income Tax	Total State and Local Income Tax	Local Tax Rate
Allegany	23,371	\$ 1,095,518	\$ 846,970	\$ 37,362	\$ 24,128	\$ 61,490	2.93%
Anne Arundel.....	206,342	16,594,271	12,927,631	584,589	328,259	912,848	2.56
Baltimore County.....	323,123	24,498,496	19,295,307	854,358	539,231	1,393,589	2.83
Calvert	32,980	2,623,917	1,993,268	90,376	55,369	145,745	2.80
Caroline	11,854	572,633	418,972	17,441	10,640	28,081	2.63
Carroll.....	64,556	4,688,688	3,573,321	163,534	108,193	271,727	3.05
Cecil.....	35,385	2,115,412	1,602,718	52,723	44,149	96,872	2.80
Charles.....	53,575	3,621,026	2,604,938	118,066	74,606	192,672	2.90
Dorchester.....	11,676	559,495	415,837	17,701	10,442	28,143	2.62
Frederick	89,656	6,767,864	5,177,676	234,724	151,991	386,715	2.96
Garrett	9,953	503,738	384,373	16,823	9,904	26,727	2.65
Harford.....	93,571	6,563,549	5,021,604	225,461	152,151	377,612	3.06
Howard.....	107,082	10,775,189	8,596,160	392,048	273,764	665,812	3.20
Kent.....	7,229	489,383	379,366	15,113	10,635	25,748	2.85
Montgomery	383,214	41,836,265	34,089,151	1,470,626	1,084,441	2,555,067	3.20
Prince George's.....	336,307	18,265,205	12,208,016	539,623	379,186	918,809	3.20
Queen Anne's.....	17,309	1,424,833	1,098,928	49,061	31,049	80,110	2.85
St. Mary's	36,246	2,400,643	1,828,051	83,121	54,171	137,292	3.05
Somerset.....	6,745	297,095	219,459	9,402	6,585	15,987	3.15
Talbot.....	14,912	1,479,510	1,198,242	50,575	26,705	77,280	2.25
Washington	54,168	3,044,266	2,330,242	104,078	64,015	168,093	2.80
Wicomico	34,130	1,848,770	1,418,761	59,840	42,614	102,454	3.10
Worcester	21,009	1,295,487	1,004,317	42,084	12,342	54,426	1.25
Baltimore City.....	204,320	10,053,923	7,503,122	318,371	216,668	535,039	3.05
Non-resident.....	84,589	5,208,555	4,578,407	269,313		269,313	
Total.....	2,263,302	\$168,623,731	\$130,714,837	\$5,816,413	\$3,711,238	\$9,527,651	

(1) See state personal income tax rates schedule for tax rate information.

Source: Revenue Administration Division, State Comptroller's Office

STATE OF MARYLAND

State Personal Income Tax and Sales Tax Rates

Last Ten Calendar Years

Year	Personal Income Tax Rate				Sales Tax Rate
	1st \$1,000 of Net Taxable Income	2nd \$1,000 of Net Taxable Income	3rd \$1,000 of Net Taxable Income	In excess of \$3,000 Net Taxable Income	
2006	2 %	3 %	4 %	4.75 %	5 %
2005	2	3	4	4.75	5
2004	2	3	4	4.75	5
2003	2	3	4	4.75	5
2002	2	3	4	4.75	5
2001	2	3	4	4.80	5
2000	2	3	4	4.85	5
1999	2	3	4	4.85	5
1998	2	3	4	4.88	5
1997	2	3	4	5.00	5

Source: Revenue Administration Division, State Comptroller's Office

Personal Income Tax Filers and Liability by Income Level

Last Nine Tax Years Ended December 31st*

(Dollars, except income level, Expressed in Thousands)

2006				2005			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total	Number of Filers	Income Tax Liability	Percentage of Total
\$500,000 and higher	20,188	0.89%	\$1,187,582,668	20.42%	18,394	\$1,064,405	19.41%
\$100,000-\$499,999	386,236	17.07	2,379,533,636	40.91	354,202	2,185,588	39.85
\$75,000-\$99,999	290,471	12.83	818,732,019	14.08	282,940	804,574	14.67
\$50,000-\$74,999	303,484	13.41	577,994,738	9.94	298,942	573,615	10.46
\$25,000-\$49,999	637,570	28.17	666,374,604	11.46	636,912	667,108	12.16
\$10,000-\$24,999	501,656	22.16	172,923,157	2.97	511,948	174,268	3.18
Under \$10,000	123,697	5.47	13,274,601	0.23	132,317	14,411	0.26
Total	2,263,302	100.00%	\$5,816,415,423	100.00%	2,235,655	\$5,483,969	100.00%

2004				2003			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total	Number of Filers	Income Tax Liability	Percentage of Total
\$100,000 and higher	322,388	15.04%	\$2,473,983	53.06%	289,448	\$2,107,257	49.48%
\$75,000-\$99,999	213,573	9.96	638,382	13.69	205,607	611,558	14.36
\$50,000-\$74,999	347,875	16.23	703,769	15.09	345,285	695,499	16.33
\$25,000-\$49,999	626,618	29.23	661,464	14.19	626,336	660,343	15.51
\$10,000-\$24,999	507,779	23.69	171,094	3.67	513,506	170,481	4.00
Under \$10,000	125,426	5.85	13,758	0.30	124,623	13,594	0.32
Total	2,143,659	100.00%	\$4,662,450	100.00%	2,104,805	\$4,258,732	100.00%

2002				2001			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability	Percentage of Total	Number of Filers	Income Tax Liability	Percentage of Total
\$100,000 and higher	269,980	12.87%	\$1,924,320	47.10%	259,490	\$1,935,778	46.45%
\$75,000-\$99,999	201,154	9.59	597,359	14.62	195,174	596,649	14.32
\$50,000-\$74,999	346,786	16.53	700,379	17.15	343,206	715,851	17.18
\$25,000-\$49,999	631,516	30.10	672,903	16.47	635,022	710,635	17.05
\$10,000-\$24,999	523,825	24.97	176,215	4.31	535,255	192,110	4.61
Under \$10,000	124,636	5.94	14,180	0.35	136,244	16,364	0.39
Total	2,097,897	100.00%	\$4,085,356	100.00%	2,104,391	\$4,167,387	100.00%

STATE OF MARYLAND

Personal Income Tax Filers and Liability by Income Level Last Nine Tax Years Ended December 31st*

(Dollars, except income level, Expressed in Thousands)

(continued)

2000			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	249,751	11.88 %	\$2,079,398
\$75,000-\$99,999	186,436	8.86	586,145
\$50,000-\$74,999	335,542	15.95	720,951
\$25,000-\$49,999	623,894	29.66	729,468
\$10,000-\$24,999	552,841	26.29	206,352
Under \$10,000	154,889	7.36	19,193
Total	2,103,353	100.00 %	\$4,341,507

1999			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	216,148	10.60 %	\$1,759,730
\$75,000-\$99,999	173,353	8.50	545,918
\$50,000-\$74,999	324,731	15.92	698,803
\$25,000-\$49,999	607,977	29.81	713,496
\$10,000-\$24,999	557,913	27.36	209,862
Under \$10,000	159,306	7.81	19,534
Total	2,039,428	100.00 %	\$3,947,343

1998			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	190,139	9.54 %	\$1,563,153
\$75,000-\$99,999	162,770	8.17	515,946
\$50,000-\$74,999	317,930	15.95	687,644
\$25,000-\$49,999	601,315	30.18	714,703
\$10,000-\$24,999	565,454	28.38	217,229
Under \$10,000	155,103	7.78	20,150
Total	1,992,711	100.00 %	\$3,718,825

Source: Revenue Administration Division, State Comptroller's Office

*Information not available for tax years prior to December 31, 1998.

Sales and Use Tax Receipts by Principal Type of Business

Last Ten Fiscal Years

(Expressed in Thousands)

Year	Food and Beverage	Apparel	General Merchandise	Automotive	Furniture and Appliances	Building & Industrial Supplies	Utilities & Transportation	Hardware, Machinery & Equipment	Miscellaneous	Assessment Collections	Total Collections
2007.....	\$689,279	\$167,918	\$612,937	\$234,898	\$380,999	\$504,516	\$316,600	\$91,628	\$432,831	\$16,233	\$3,447,839
2006.....	664,654	158,839	601,431	230,753	380,642	530,214	284,661	88,754	418,491	23,257	3,381,696
2005.....	624,292	151,837	568,018	221,341	360,580	475,135	254,860	84,498	390,889	22,226	3,153,676
2004.....	591,744	144,961	538,364	216,385	333,307	417,729	231,099	78,351	387,780	29,721	2,969,441
2003.....	555,108	133,363	504,099	202,927	314,144	359,468	218,537	70,427	362,003	17,165	2,737,241
2002.....	542,276	132,067	489,102	197,122	315,080	365,132	214,839	72,343	359,394	21,184	2,708,539
2001.....	519,182	131,930	483,137	193,744	342,499	348,702	228,701	73,417	330,213	17,534	2,669,059
2000.....	486,772	121,352	455,649	179,047	328,156	339,764	193,773	72,282	327,442	16,747	2,520,984
1999.....	464,543	113,629	422,185	145,572	305,184	309,121	163,207	66,603	312,845	12,909	2,315,798
1998.....	445,391	105,111	409,091	138,356	282,982	274,130	145,474	67,133	291,963	20,331	2,179,962

Source: Revenue Administration Division, Comptroller's Office

STATE OF MARYLAND

Schedule of Ratio of Outstanding Debt by Type

Last Six Fiscal Years*

(Dollars Expressed in Thousands except Per Capita)

Fiscal Year	General Bonded Debt			Other Governmental Activities Debt				Debt Ratios, Governmental Activities			Business-Type Activities Debt		Total		Debt Ratios, Primary Government	
	General Obligation Bonds	Transportation Bonds	Capital Leases	Transportation Debt/Other Liabilities		Capital Leases with Component Units	Total Governmental Activities Debt	Percentage of Personal Income (1)	Per Capita (1)	Revenue Bonds	Capital Leases	Business-Type Activities Debt	Primary Government Debt	Percentage of Personal Income (1)	Per Capita (1)	
2007	\$5,142,154	\$1,111,050	\$535,482	\$391,029	\$278,265	\$7,457,980	3.01%	\$1,328	\$4,140,383	\$1,124	\$4,141,507	\$11,599,487	4.69%	\$2,066		
2006	4,868,472	1,079,340	519,592	404,320	293,140	7,164,864	3.05	1,279	2,882,855	1,256	2,884,111	10,048,975	4.27	1,794		
2005	4,511,826	1,071,620	440,236	409,587	304,220	6,737,489	3.09	1,212	2,825,315	1,673	2,826,988	9,564,477	4.38	1,721		
2004	4,102,278	1,188,090	345,028	400,813	303,901	6,340,110	3.08	1,151	2,935,711	3,132	2,938,843	9,278,953	4.51	1,684		
2003	3,932,493	964,400	262,792	264,099	296,672	5,720,456	2.89	1,050	3,220,797	2,371	3,223,168	8,943,624	4.52	1,641		
2002	3,544,178	717,980	220,649	119,460	290,510	4,892,777	2.57	909	3,412,923	3,243	3,416,166	8,308,943	4.37	1,543		

Source: General Accounting Division, State Comptroller's Office

(1) Population and personal income data can be found in the Schedule of Demographic Statistics.

*Information for fiscal years prior to fiscal year ended June 30, 2002, is not available.

STATE OF MARYLAND

Ratio of General Bonded Debt To Actual Value and General Bonded Debt Per Capita Last Ten Fiscal Years

Fiscal Year	(Expressed in Thousands)			Ratio of General Bonded Debt to Actual Property Value	General Bonded Debt per Capita
	Estimated Population (1)	Estimated Property Value	General Bonded Debt (2)		
2007.....	5,616	\$527,012,375	\$5,142,154	0.98%	\$916
2006.....	5,600	452,249,831	4,868,472	1.08	869
2005.....	5,558	398,065,083	4,511,826	1.13	812
2004.....	5,509	361,689,307	4,102,278	1.13	745
2003.....	5,451	336,657,741	3,932,493	1.17	721
2002.....	5,383	318,778,365	3,544,178	1.11	658
2001.....	5,312	307,476,610	3,450,900	1.12	650
2000.....	5,255	327,817,193	3,348,866	1.02	637
1999.....	5,204	317,639,013	3,500,228	1.10	673
1998.....	5,157	309,303,572	3,270,525	1.06	634

Source: The Fifty-third through Sixty-third Report of the State Department of Assessments and Taxation and the State Comptroller's Office.

(1) See Schedule of Demographic Statistics.

(2) Includes general obligation bonds. The primary revenue source to pay the debt service for general obligation bonds is property taxes.

STATE OF MARYLAND

Legal Debt Margin Information

Last Ten Fiscal Years

(Expressed in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2007		Year ended June 30,									
		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Debt limit (1)	\$9,064,691										
Debt applicable to limit:											
General obligation bonds	5,142,154										
Transportation bonds	1,111,050										
Nontraditional Transportation debt (2)	765,617										
Less amounts set aside for repayment of:											
General obligation debt	60,904										
Transportation debt	33,590										
Total net debt applicable to limit	6,924,327										
Legal debt margin	\$2,140,364										
<hr/>											
Debt limit	\$9,064,691	\$8,730,531	\$7,819,314	\$7,301,732	\$6,800,976	\$6,116,782	\$5,747,158	\$5,677,486	\$5,483,722	\$5,397,037	
Total net debt applicable to limit	6,924,327	6,572,782	5,463,019	5,212,769	4,862,003	4,232,412	4,081,297	4,053,728	4,223,364	4,079,910	
Legal debt margin	\$2,140,364	\$2,157,749	\$2,356,295	\$2,088,963	\$1,938,973	\$1,884,370	\$1,665,861	\$1,623,758	\$1,260,358	\$1,317,127	
<hr/>											
Total net debt applicable to the limit											
as a percentage of debt limit		76.39%	75.29%	69.87%	71.39%	71.49%	69.19%	71.01%	71.40%	77.02%	75.60%

Source: General Accounting Division, State Comptroller's Office

- (1) For general obligation bonds, the debt limit is based on separate enabling acts for particular objects or purposes that are enacted during each legislative session. There is no separately mandated maximum amount for the issuance of general obligation bonds. For transportation bonds, the General Assembly each year establishes a maximum aggregate outstanding amount that does not exceed \$1,500,000,000 up to June 30, 2004, and \$2,000,000,000, thereafter.
- (2) The 2006 session of the General Assembly established a maximum outstanding principal amount of \$762,200,000 as of June 30, 2007, for all nontraditional debt of the Department. Nontraditional debt outstanding is defined as any debt instrument that is not a Consolidated Transportation Bond or GARVEE bond. This debt includes certificates of participation, debt backed by customer facility charges, passenger facility charges, and debt issued by the Maryland Economic Development Corporation or any other third party on behalf of the Department.

Schedule of Taxes Pledged to Consolidated Transportation Bonds and Net Revenues as Defined for Purposes of Consolidated Transportation Bonds Coverage Tests ⁽¹⁾ Last Ten Fiscal Years (Expressed in Thousands)

	Year ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenues:										
Taxes and fees (2):										
Taxes pledged to bonds.....	\$1,196,568	\$1,221,720	\$1,220,851	\$1,145,048	\$1,073,953	\$1,046,715	\$1,027,808	\$981,548	\$934,051	\$857,816
Other taxes and fees	410,614	391,618	381,516	112,305 (3)	88,833 (3)	238,303	219,426	220,672	214,483	198,101
Total taxes and fees	1,607,182	1,613,338	1,602,367	1,257,353	1,162,786	1,285,018	1,247,234	1,202,220	1,148,534	1,055,917
Operating revenues.....	369,241	340,742	328,273	339,635	299,844	297,489	303,206	311,909	267,946	241,357
Investment income	10,574	8,211	4,928	3,374	2,960	3,724	10,423	10,206	10,142	10,933
Other	39,836	87,640	75,902	90,943	79,023	25,950	24,619	19,361	15,486	14,228
Total revenues.....	2,026,833	2,049,931	2,011,470	1,691,305	1,544,613	1,612,181	1,585,482	1,543,696	1,442,108	1,322,435
Administration, operation and maintenance expenditures	1,396,872	1,302,582	1,237,446	1,177,889	1,159,176	1,044,908	979,318	913,059	868,439	808,439
Less: Federal funds	(72,598)	(70,828)	(79,892)	(76,503)	(76,841)	(50,396)	(29,418)	(24,723)	(20,472)	(11,530)
Total.....	1,324,274	1,231,754	1,157,554	1,101,386	1,082,335	994,512	949,900	888,336	847,967	796,909
Net revenues.....	\$ 702,559	\$ 818,177	\$ 853,916	\$ 589,919	\$ 462,278	\$ 617,669	\$ 635,582	\$ 655,360	\$ 594,141	\$ 525,526
Maximum annual principal and interest requirements	\$ 129,550	\$ 121,412	\$ 141,172	\$ 169,655	\$ 153,965	\$ 138,183	\$ 127,060	\$ 127,060	\$ 133,267	\$ 133,267
Ratio of net revenues to maximum annual principal and interest requirements.....	5.42	6.74	6.04	3.48	3.00	4.47	5.00	5.16	4.46	3.94
Ratio of taxes pledged to bonds to maximum annual principal and interest requirements ...	9.24	10.06	8.65	6.75	6.98	7.57	8.09	7.73	7.01	6.44

Source: The Secretary's Office of the Department of Transportation.

(1) Under the terms of the bond authorizing resolutions, additional Consolidation Transportation Bonds may be issued, provided, among other conditions, that

(i) total receipts, less administration, operation and maintenance expenditures for the preceding fiscal year equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

(2) Consolidated Transportation Bonds are payable from certain taxes, principally, motor vehicle excise taxes, motor fuel taxes, and a portion of the corporate income tax.

These amounts are available to the extent necessary for that exclusive purpose. Other receipts of the Department are available if necessary.

(3) In fiscal years 2003 and 2004, \$160,000,000 and \$154,913,000, respectively, of other taxes and fees were transferred to the General Fund per legislation.

STATE OF MARYLAND

Ratio of Pledged Assets to Revenue Bonds, Community Development Administration Last Ten Fiscal Years

Fiscal Year	Pledged Assets (1)	Revenue Bonds Payable	Ratio of Pledged Assets to Revenue Bonds
2007	\$3,497,373	\$3,016,848	1.16
2006	2,476,342	2,040,485	1.21
2005	2,439,264	1,973,583	1.24
2004	2,643,756	2,211,905	1.20
2003	3,003,939	2,537,388	1.18
2002	3,030,657	2,628,254	1.15
2001	3,004,743	2,640,052	1.14
2000	2,917,980	2,606,943	1.12
1999	2,759,753	2,462,918	1.12
1998	2,711,296	2,385,177	1.14

- (1) Bonds and notes issued by the Community Development Administration (CDA) are special obligations of CDA and are payable solely from the revenues of the applicable mortgage loan programs. Assets, principally mortgage loans, and program revenues are pledged as collateral for the revenue bonds.

STATE OF MARYLAND

Schedule of Demographic Statistics

Last Ten Years

	Population (1)	Total Personal Income (2) (Expressed in Thousands)	Per Capita Personal Income	School Enrollment (3)	Unemployment Rate (4)
2007.....	5,615,727	\$247,525,909	\$44,077	1,036,523	3.9%
2006.....	5,600,388	235,195,668	41,996	1,050,627	3.8
2005.....	5,558,058	218,137,769	39,248	1,053,378	4.2
2004.....	5,508,909	205,652,120	37,331	1,056,520	4.3
2003.....	5,450,525	197,868,861	36,303	1,056,944	4.7
2002.....	5,383,377	190,331,297	35,355	1,049,733	4.6
2001.....	5,311,531	181,957,207	34,257	1,040,020	3.8
2000.....	5,254,509	167,074,691	31,796	1,017,574	3.3
1999.....	5,204,464	157,783,778	30,317	1,009,870	4.0
1998.....	5,157,328	147,842,522	28,666	998,085	4.8

Sources:

- (1) US Department of Commerce, Bureau of Census, "Annual Population Estimates by State"
Note: Figures are estimates for the calendar year except that the current year amount is a projected estimate for the year.
- (2) US Department of Commerce, Bureau of Economic Analysis. All ten years of income data based on April 2004
Comprehensive revision of State Personal Income Statistics for 1969-2002.
Preliminary estimates are provided for 2003-2007. Data provided is for the prior ending calendar year.
- (3) Figures are for the calendar year. State Department of Education, grades pre-kindergarten thru grade 12.
Includes public and nonpublic schools.
- (4) Figures are for the fiscal year. State Department of Labor, Licensing and Regulation.

STATE OF MARYLAND

Schedule of Employment by Sector

Prior Year and Nine Years Prior⁽³⁾

(Expressed in Thousands)

	Calendar Year 2006 (1)			Calendar Year 1997 (2)		
	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker
Government:						
State and local	330,314	\$ 14,723,321	\$ 857	284,018	\$ 9,080,592	\$615
Federal	125,178	9,652,443	1,483	125,470	6,269,645	961
Total government	455,492	24,375,764	1,029	409,488	15,350,237	721
Manufacturing	136,334	7,692,777	1,085	176,722	7,013,401	763
Natural resources and mining.....	6,836	235,000	661			
Construction.....	188,420	9,076,290	926	137,820	4,509,478	629
Trade, transportation, and utilities	470,271	17,509,056	716	103,126	3,935,437	734
Wholesale.....				110,298	4,556,267	794
Retail.....				426,555	7,273,865	328
Information services	50,726	3,212,601	1,218			
Financial activities	157,729	10,523,325	1,283	131,151	5,619,175	824
Professional and business services	394,518	22,563,934	1,100	710,267	21,980,115	595
Education and health services.....	349,136	14,659,573	807			
Leisure and hospitality.....	229,694	4,086,481	342			
Unclassified and other services.....	90,973	2,801,067	592	26,070	602,917	445
Total of all sectors.....	2,530,129	\$116,735,868	\$ 887	2,231,497	\$70,840,892	\$610

- (1) **Source:** Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information Publication "Employment and Payroll 2006 Annual Averages" issued July, 2007. This report reflects the new North American Industry Classification System (NAICS) coding revisions.
- (2) **Source:** Maryland Department of Economic and Employment Development, Office of Labor Market Analysis and Information, December 31, 1997.
- (3) Some of the data is not comparative due to the reclassifications made during the term of the two periods.

Maryland's Ten Largest Private Employers*

Calendar Years		
2007	Employer (listed Alphabetically) 2006 and 2005	2004 and 2003
Giant of Maryland LLC	Giant of Maryland LLC	Giant of Maryland LLC
Helix Health System Inc.	Helix Health System Inc.	Helix Health System Inc.
Home Depot USA Inc.	Home Depot USA Inc.	Home Depot USA Inc.
Johns Hopkins Hospital	Johns Hopkins Hospital	Johns Hopkins Hospital
Johns Hopkins University	Johns Hopkins University	Johns Hopkins University
Macy's	Northrop Grumman Corporation	Northrop Grumman Corporation
Northrop Grumman Corporation	Safeway Inc.	Safeway Inc.
Safeway Inc.	Target	United Parcel Service
United Parcel Service	United Parcel Service	Verizon Maryland Inc.
Wal-Mart	Wal-Mart	Wal-Mart

Source: Department of Labor, Licensing and Regulation; Office of Labor Market Analysis and Information.

* Information for prior years not available.

STATE OF MARYLAND

State Employees by Function/Program

Last Four Fiscal Years*

	Year ended June 30,			
	2007	2006	2005	2004
State Employees:				
Governmental activities:				
General government	5,712	5,656	5,493	5,604
Health and mental hygiene.....	11,661	11,668	11,633	11,815
Education.....	2,504	2,425	2,295	2,180
Human resources.....	6,713	6,767	6,910	6,852
Public safety	15,603	15,307	15,207	15,356
Transportation.....	6,518	6,523	6,599	6,799
Judicial	5,851	5,744	5,496	5,387
Labor, licensing and regulation.....	1,682	1,647	1,667	1,691
Natural resources and recreation.....	2,008	1,970	2,028	2,076
Housing and community development.....	228	256	262	254
Environment	926	922	901	907
Agriculture	481	499	500	516
Business and economic development.....	295	340	307	303
Total governmental activities employees.....	60,182	59,724	59,298	59,740
Business-type activities:				
Economic development - insurance programs.....	201	210	201	205
Maryland State Lottery.....	185	183	169	177
Maryland Transportation Authority.....	1,594	1,502	1,503	1,562
Maryland Correctional Enterprises.....	184	187	164	159
Total business-type activities employees	2,164	2,082	2,037	2,103
Total primary government employees	62,346	61,806	61,335	61,843
Component units:				
Higher Education.....	36,132	34,882	39,388	34,397
Prepaid College Trust**	16			
Stadium Authority.....	120	98	93	97
Other component units.....	27	42	59	41
Total component unit employees.....	36,295	35,022	39,540	34,535

Source: Central Payroll Bureau, State Comptroller's Office

*Information for prior years not available.

** Information for prior years was included in the total for "Other Component Units".

STATE OF MARYLAND

Schedule of Miscellaneous, Operating and Capital Asset Statistics by Function Last Four Fiscal Years*

Date of Ratification	1788			
Form of Government	Legislative - Executive - Judicial			
Land Area.....	9,808 square miles			
Function/Program	2007**	2,006	2005	2004
Education, Public School Enrollment.....	827,596	829,007	828,961	821,984
Health and Human Resources:				
Medicaid Enrollment	607,946	629,500	638,085	502,860
Children's Health Program Enrollment.....	108,813	103,260	95,019	98,420
WIC Food Program Recipients	111,000	113,100	108,574	106,060
Mental Hygiene Clients.....	93,300	92,715	92,608	90,849
Public Assistance Caseload (AFDC/TANF).....	56,461	57,589	65,782	70,745
Foster Care and Subsidized Adoption Average Caseload	14,731	13,956	14,762	15,028
Public Safety:				
Correctional Institutions Average Daily Population.....	28,143	26,475	26,938	27,933
Parole and Probation, Active Cases under Supervision.....	48,990	49,244	50,112	50,127
Youth Residential Programs, Average Daily Population.....	1,667	1,728	1,747	2,039
Number of Youths on Probation.....	6,593	6,568	6,765	6,840
Public Safety (State Police):				
Number of Police Stations.....	26	26	26	26
Number of State Police.....	1,591	1,591	1,593	1,596
Motor Vehicle Citations (calendar year).....	491,911	487,041	482,219	459,272
Motor Vehicle - Number of Collisions (calendar year)	101,952	102,000	102,546	101,858
Judicial, Total Filings.....	N/A	2,711,028	2,771,142	2,751,649
Transportation:				
Miles of State Highways	5,241	5,235	5,234	5,235
Lane Miles Maintained.....	16,757	16,731	16,717	16,680
Expenditures per Lane Mile	\$8,263	\$7,812	\$7,957	\$8,039
Number of Bridges***	1,200	1,155	1,155	1,157
Motor Vehicle Registrations	5.1 million	5.2 million	5.0 million	4.9 million
BWI Airport Passengers (calendar year)	21.2 million	19.7 million	19.1 million	20.5 million
Acres Agricultural Land Preserved - all programs	495,000	459,871	430,000	N/A
Department of Housing and Community Development:				
Active Single Family/Multifamily Bond Financed Loans.....	13,500	12,213	13,769	15,986
Department of Business and Economic Development:				
Number of businesses assisted	1,517	1,600	1,146	1,094
Number of workers trained	9,700	12,425	9,694	9,101
Higher Education (Universities, Colleges and Community Colleges):				
Number of Campuses in State.....	29	29	29	29
Number of Educators	9,021	8,711	8,606	8,432
Number of Students	255,969	256,580	251,984	246,794
Number of State Scholarships Awarded	58,613	52,576	47,025	44,851
Recreation:				
Number of State Parks and Forests	58	60	60	61
State Parks Daily Visitors.....	11.4 million	11.1 million	11.5 million	9.9 million
Area of State Parks, Acres.....	93,683	93,661	93,661	97,362
Area of State Forests, Acres	138,587	136,093	136,093	135,951

*Information for prior years not available.

** These amounts are estimates.

***On Maryland's portion of the National Highway System

Sources: State Comptroller's Office, General Accounting Division, Central Payroll Bureau, Maryland Manual at www.mdarchives.state.md.us/msa/mdmanual, Maryland Budget, Department of Budget and Management, Department of Natural Resources, and the State Highway Administration of Maryland.

State of Maryland

FINANCIAL SCHEDULES REQUIRED BY LAW

These schedules are required to be submitted by the Comptroller
by Title 2, Section 102 of the State Finance and Procurement
Article of the Annotated Code of Maryland.

Schedule of Estimated and Actual Revenues By Source, Budgetary Basis, for the Year Ended June 30, 2007

(Expressed in Thousands)

	Annual Budgeted Funds										Capital Projects	
	General Fund			Special Fund			Federal Fund		Higher Education Funds			
	Estimated Revenues	Actual Revenues	Total	Estimated Revenues	Actual Revenues	Total	Estimated Revenues	Actual Revenues	Current			Total
									Unrestricted Fund Estimated Revenues	Unrestricted Fund Actual Revenues		
Taxes:												
Property tax.....	\$	276	\$	686,170	\$	686,595						\$ 791,643
Franchise and corporation tax.....	\$	123,739				133,278						133,278
Death taxes.....		220,146				224,341						224,341
Admission and amusement tax.....				301		2,207						2,207
Alcoholic beverages tax.....		28,497				28,682						28,682
Motor vehicle fuel taxes.....		13,317				13,197						753,988
Income taxes.....		7,167,363				7,268,949						7,462,097
Sales and use taxes.....		3,457,229				3,420,149						3,447,827
Tobacco taxes.....		285,127				277,755						277,755
Motor vehicle titling taxes.....						715,000						703,815
Insurance company taxes.....		285,991				283,342						385,025
Horse racing taxes.....						87,965						2,021
Shellfish taxes.....						220						220
Boxing, wrestling or sparring taxes.....						545						545
Boat titling tax.....						27,587						27,422
Energy generation tax.....						49,116						45,022
Emergency telephone system tax.....						75,124						64,843
Total taxes.....	11,581,409	11,650,514		2,615,700	2,595,445						104,772	14,350,731
Other:												
Licenses and permits.....	40,696	39,983				511,924						606,589
Fees for services.....	146,768	149,424				681,917						832,173
Fines and costs.....	171,761	169,521				248,854						374,581
Sales to the public.....	18,220	19,355				73,808						93,708
Commissions and royalties.....	1,201	13				80,937						70,304
Rentals.....	1,017	1,270				89,483						84,282
Interest on investments.....	172,795	260,708				31,392		\$	1,545		537	320,116
Interest on loan repayments.....						4,500						3,314
Miscellaneous.....	95,417	85,055				75,847						212,483
Colleges and universities.....						8,779				\$2,043,901	\$2,042,445	2,965,934
Federal reimbursements and grants...						376,912				\$1,012,716	\$923,489	6,211,156
Other reimbursements.....	129,558	138,027				171,473						309,500
Bond issues:												
State - general purpose.....											679,378	679,378
Consolidated transportation bonds.....						161,000						100,000
Premiums.....						48,000					1,662	51,815
State reimbursements.....	479,236	1,377,693				595,966					92,230	1,957,411
Appropriated from general fund.....										1,047,453	1,047,453	1,047,453
Trust funds.....												14,489
Revolving accounts.....	11,500	13,949				25,537						14,489
Total revenues.....	\$12,849,578	\$13,905,512		\$5,646,140	\$5,322,021	\$6,778,384	\$6,204,008	\$3,091,354	\$3,089,898	\$1,012,716	\$923,489	\$30,323,507

STATE OF MARYLAND

Schedule of Budget and Actual Expenditures and Encumbrances by Major Function, Budgetary Basis, For the Year Ended June 30, 2007 (Expressed in Thousands)

Expenditures and Encumbrances by Major Function*	Annual Budgeted Funds									
	General Fund		Special Fund		Federal Fund		Higher Education Funds		Capital Projects	Total
	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Current			
							Unrestricted Fund	Restricted Fund		
Payments of revenue to civil divisions of the State	\$ 145,033	\$ 144,794	\$654,616	\$ 654,055						\$ 144,794
Public debt			100	100						654,055
Legislative	69,128	68,156	81,349	72,045	\$ 7,516	\$ 6,020				68,256
Judicial review and legal	432,829	429,676	256,202	232,653	128,697	121,207				507,741
Executive and administrative control	278,878	276,634	82,062	72,461						630,494
Financial and revenue administration	182,851	179,001	24,576	16,359						251,462
Budget and management	65,860	62,537	29,309	27,612						78,896
Retirement and pension			3,527	2,616	864	840				27,612
General services	59,815	58,814	2,912,012	2,744,534	877,309	782,760				62,270
Transportation and highways			399,246	386,847	33,965	26,168				3,527,294
Natural resources and recreation	75,692	75,387	111,430	109,566	13,913	9,395				488,402
Agriculture	30,292	30,021	396,660	348,219	3,140,220	3,120,907				148,982
Health, hospitals and mental hygiene	3,588,004	3,588,003	94,362	88,205	1,071,644	999,214				7,057,129
Human resources	569,924	569,924	38,907	35,420	136,203	115,945				1,657,343
Labor, licensing and regulation	16,004	15,728	151,079	147,904	12,844	10,816				167,093
Public safety and correctional services	1,034,310	1,033,397	48,413	41,670	1,025,387	892,371				1,192,117
Public education	6,201,859	6,197,845	60,197	58,103	235,721	196,256	\$3,091,354	\$3,000,945	\$1,012,716	11,055,923
Housing and community development	46,132	45,621	64,301	53,047	2,735	2,533				299,980
Business and economic development	103,205	103,086	168,516	163,085	66,627	63,519				158,666
Environment	50,835	50,340	4,383	4,142	15,683	10,529				276,944
Juvenile services	238,791	238,520	64,893	59,793	9,056	4,980				253,191
State police	245,559	245,559								310,332
State reserve fund	791,382	791,382							\$855,953	791,382
Loan accounts										855,953
Reversions:										
Current year reversions	(20,000)						(103,295)	(1,838)	(5)	(158,818)
Prior year reversions										
Total expenditures and encumbrances	\$14,206,383	\$14,174,454	\$5,646,140	\$5,294,727	\$6,778,384	\$6,260,165	\$3,091,354	\$2,999,107	\$1,012,716	\$855,953
										\$30,507,493

*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General and Special" included in the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

Schedule of Changes in Fund Equities - Budgetary Basis For the Year Ended June 30, 2007

(Expressed in Thousands)

	General Fund		Special Fund		Federal Fund	Higher Education		Capital Projects Fund	Total
	General	State Reserve	Special	Debt Service		Current Unrestricted Fund	Current Restricted Fund		
Fund equities, June 30, 2006.....	\$ 1,516,554	\$ 805,495	\$ 1,445,325	\$ 106,988		\$ 448,108	\$ 903	\$ 257,593	\$ 4,580,966
Increase:									
Revenues.....	13,079,369	826,143	4,699,166	622,855	\$6,204,008	3,089,898	923,489	878,579	30,323,507
Decrease:									
Appropriations.....	14,226,383		4,991,524	654,616	6,778,384	3,091,354	1,012,716		
Less: Current year reversions.....	(21,958)		(327,143)	(561)	(414,924)	(90,409)	(89,624)		
Prior year reversions.....	(29,971)		(23,709)		(103,295)	(1,838)	(5)		
Expenditures and encumbrances*	14,174,454		4,640,672	654,055	6,260,165	2,999,107	923,087	855,953	30,507,493
Changes to encumbrances during fiscal year 2007 ..	(51,543)		(67,645)		91,529	2,204	118		(25,337)
Expenditures	14,122,911		4,573,027	654,055	6,351,694	3,001,311	923,205	855,953	30,482,156
Transfers in (out)	18,084	(41,882)	80,151	(16,000)	147,686	(1,754)	(283)	6,003	192,005
Fund equities, June 30, 2007.....	\$ 491,096	\$ 1,589,756	\$ 1,651,615	\$ 59,788	\$ -	\$ 534,941	\$ 904	\$ 286,222	\$ 4,614,322
Fund Balance:									
Reserved:									
Encumbrances	\$ 206,385		\$ 532,568		\$ 248,432	\$ 2,358	\$ 123	\$ 499,995	\$ 1,489,861
State reserve fund.....		\$ 1,589,756							1,589,756
Loans and notes receivable			4,819	\$ 5,879					10,698
Shore erosion loan program			5,825						5,825
Gain/Loss on Investments.....			867						867
Unreserved:									
Designated for:									
General long-term debt service.....									53,909
2008 operations.....	195,050								195,050
Undesignated surplus (deficit)	89,661		1,107,536		(248,432)	532,583	781	(213,773)	1,268,356
Total	\$ 491,096	\$ 1,589,756	\$ 1,651,615	\$ 59,788	\$ -	\$ 534,941	\$ 904	\$ 286,222	\$ 4,614,322

* Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal" included in the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

Schedule of Funds Transferred to Political Subdivisions

For the Year Ended June 30, 2007 ⁽¹⁾

(Expressed in Thousands)

Subdivision (2)	State Sources				Other Sources				Assessed Value of Real and Personal Property (2)	Amount Per \$100 of Assessed Value
	Shared Revenues	Direct Grants and Appropriations		Debt Service	Total	Federal Funds	State Administered Local Revenue			
Allegany	\$ 4,828	\$ 120,264	\$ 10,872	\$ 135,964	\$ 21,134	\$ 25,668	\$ 182,766	\$ 2,818,324	\$6.48	
Anne Arundel	30,316	394,020	23,978	448,314	51,295	423,287	922,896	60,826,688	1.52	
Baltimore County	43,280	730,990	38,104	812,374	104,058	607,803	1,524,235	62,365,607	2.44	
Calvert	5,951	103,106	3,462	112,519	10,014	70,522	193,055	9,742,417	1.98	
Caroline	4,151	52,117	5,195	61,463	9,379	14,419	85,261	2,089,016	4.08	
Carroll	11,831	175,185	6,994	194,010	16,353	108,977	319,340	15,453,866	2.07	
Cecil	6,715	119,184	11,364	137,263	15,963	55,602	208,828	7,932,003	2.63	
Charles	9,490	179,565	9,227	198,282	18,669	80,326	297,277	13,304,605	2.23	
Dorchester	4,303	41,570	337	46,210	11,646	14,122	71,978	2,400,917	3.00	
Frederick	13,930	230,715	23,771	268,416	22,872	155,108	446,396	22,292,911	2.00	
Garrett	5,422	40,529	2,021	47,972	9,368	14,802	72,142	3,371,967	2.14	
Harford	14,532	258,299	7,708	280,539	30,500	171,565	482,604	19,926,361	2.42	
Howard	16,039	239,667	18,641	274,347	20,475	316,859	611,681	36,224,837	1.69	
Kent	2,285	17,733	2,974	22,992	5,225	12,970	41,187	2,181,116	1.89	
Montgomery	38,105	606,811	38,208	683,124	88,523	1,255,855	2,027,502	145,815,228	1.39	
Prince George's	28,957	1,032,757	40,268	1,101,982	126,812	463,348	1,692,142	62,726,164	2.70	
Queen Anne's	5,488	44,226	8,635	58,349	6,599	41,462	106,410	6,174,441	1.72	
St. Mary's	7,655	107,321	5,788	120,764	15,417	67,941	204,122	8,227,294	2.48	
Somerset	2,945	39,064	11,022	53,031	11,243	8,025	72,299	1,180,315	6.13	
Talbot	3,268	21,799	6,259	31,326	6,600	34,681	72,607	6,749,460	1.08	
Washington	9,056	163,394	2,050	174,500	27,686	76,998	279,184	10,114,171	2.76	
Wicomico	7,290	126,881	15,952	150,123	24,647	51,083	225,853	5,539,328	4.08	
Worcester	5,232	34,363	7,857	47,452	12,240	25,798	85,490	14,475,411	0.59	
Baltimore City	227,007	1,255,591	23,803	1,506,401	347,467	303,010	2,156,878	25,256,648	8.54	
Total	\$508,076	\$6,135,151	\$324,490	\$6,967,717	\$1,014,185	\$4,400,231	\$12,382,133	\$547,189,095		

(1) In addition to the amounts shown for counties and Baltimore City, \$197,864,000 was distributed to municipalities within the counties.

(2) Source: Sixty-third Report of the Department of Assessments and Taxation, dated January 2007. Assessed value of property is 100%.

STATE OF MARYLAND

**Schedule of Taxes Receivable from
Collectors of State Property Taxes**

June 30, 2007

(Expressed in Thousands)

Political Subdivision	Taxes Receivable		
	Current Year	Prior Years	Total
Allegany	\$ 205	\$ 140	\$ 345
Anne Arundel.....	(731)	872	141
Baltimore County	129	245	374
Calvert	210	324	534
Caroline	38	21	59
Carroll.....	7	62	69
Cecil.....	37	642	679
Charles	46	26	72
Dorchester.....	62	49	111
Frederick	257	512	769
Garrett	192	40	232
Harford	19	84	103
Howard.....	29	983	1,012
Kent.....	73	42	115
Montgomery.....	284	83	367
Prince George's.....	196	99	295
Queen Anne's.....	9	4	13
St. Mary's	166	31	197
Somerset.....	150	5	155
Talbot.....		6	6
Washington	251	(50)	201
Wicomico	13	66	79
Worcester	393	135	528
Baltimore City.....	1,633	7,702	9,335
Total.....	\$3,668	\$12,123	\$15,791

STATE OF MARYLAND

Schedule of Estimated Revenues - Budgetary Basis

For the Year Ending June 30, 2008

(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Income taxes	\$ 7,638,821	\$ 188,868				\$ 7,827,689
Retail sales and use tax and licenses	3,622,702	29,884				3,652,586
Motor vehicle fuel taxes and licenses.....	13,586	779,700				793,286
Motor vehicle tax and licenses	9,785	1,096,500				1,106,285
Property taxes.....		882,141 (1)				882,141
Insurance company taxes, licenses and fees.....	293,295					293,295
Franchise and corporation taxes.....	211,743					211,743
State tobacco tax and licenses	288,296					288,296
Alcoholic beverages taxes and licenses.....	30,033					30,033
Death taxes.....	200,329					200,329
Miscellaneous taxes, fees/other revenues	179,233	45,289 (2)				224,522
Budgeted tobacco settlement recoveries ..		194,039				194,039
Horse racing taxes and licenses	240	4,356				4,596
District courts fines and costs	106,863					106,863
Interest on investments.....	95,000	5,000				100,000
Hospital patient recoveries.....	84,936					84,936
Legislative	230	100				330
Judicial review and legal	72,127	77,491	\$ 5,359			154,977
Executive and administrative control.....	5,152	249,974	114,767			369,893
Financial and revenue administration	6,349	21,928				28,277
Budget and management.....	760	33,786				34,546
State lottery agency	499,219	57,956				557,175
Information technology development.....		12,494				12,494
Retirement and pension		23,581				23,581
General services.....	100	1,780	905			2,785
Transportation and highways.....		905,858	869,500			1,775,358
Natural resources and recreation.....	215	94,703	30,241			125,159
Agriculture	63	41,668	6,908			48,639
Health, hospitals and mental hygiene	21,539	273,632	3,256,762			3,551,933
Human resources.....	926	84,481	1,051,243			1,136,650
Labor, licensing and regulation.....	10,155	35,032	107,409			152,596
Public safety and correctional services.....	7,865	148,211	10,138			166,214
Public education.....	33,528	46,049	969,567	\$3,221,376	\$1,008,792	5,279,312
Housing and community development...	1,028	64,502	203,048			268,578
Business and economic development.....		50,777	645			51,422
Environment.....	724	121,006	58,952			180,682
Juvenile justice	15	203	14,737			14,955
State police.....	2,423	66,545	4,547			73,515
State reserve fund						
Total estimated revenues (3)	\$13,437,280	\$5,637,534	\$6,704,728	\$3,221,376	\$1,008,792	\$30,009,710

(1) Includes \$618,056 recorded in the Debt Service Fund for accounting purposes.

(2) Includes \$45,289 recorded in the Debt Service Fund for accounting purposes.

(3) Amounts are reported as of July 1, 2007, and do not reflect revisions, if any, subsequent to that date.

STATE OF MARYLAND

Schedule of General, Special, Federal, Current Unrestricted and Current Restricted Fund Appropriations - Budgetary Basis For the Year Ending June 30, 2008

(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Payments of revenue to civil divisions of the State	\$ 150,512					\$ 150,512
Public debt.....	29,349	\$ 663,346 (1)				692,695
Legislative	71,444	100				71,544
Judicial review and legal	451,103	77,913	\$ 5,358			534,374
Executive and administrative control.....	197,274	252,973	114,767			565,014
Financial and revenue administration	185,322	79,884				265,206
Budget and management.....	91,065	46,280				137,345
Retirement and pension		23,581				23,581
General services.....	61,559	1,780	905			64,244
Transportation and highways.....		3,005,809	869,500			3,875,309
Natural resources and recreation.....	76,988	311,741	30,241			418,970
Agriculture	32,127	96,219	6,908			135,254
Health, hospitals and mental hygiene	3,711,005	454,221	3,256,763			7,421,989
Human resources.....	575,220	84,481	1,051,243			1,710,944
Labor, licensing and regulation.....	15,917	37,913	107,409			161,239
Public safety and correctional services.....	1,025,063	148,211	10,138			1,183,412
Public education.....	7,023,789	50,049	969,567	\$3,221,376	\$1,008,792	12,273,573
Housing and community development...	13,790	64,502	203,048			281,340
Business and economic development.....	99,004	50,777	645			150,426
Environment.....	44,833	121,006	58,952			224,791
Juvenile justice	231,853	203	14,737			246,793
State police.....	240,850	66,545	4,547			311,942
State reserve fund	262,795					262,795
Total appropriations (2).....	\$14,590,862	\$5,637,534	\$6,704,728	\$3,221,376	\$1,008,792	\$31,163,292

(1) Recorded in the Debt Service Fund for accounting purposes.

(2) Amounts are reported as of July 1, 2007, and do not reflect revisions, if any, subsequent to that date.



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